



Mary Taylor, CPA  
Auditor of State



HARRISON TOWNSHIP  
MUSKINGUM COUNTY

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# Mary Taylor, CPA

Auditor of State

Harrison Township  
Muskingum County  
553 Front Street  
Philo, Ohio 43771

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

July 23, 2007

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Harrison Township  
Muskingum County  
553 Front Street  
Philo, Ohio 43771

To the Board of Trustees:

We have audited the accompanying financial statements of Harrison Township, Muskingum County, Ohio (the Township) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to follow GAAP statement reporting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Harrison Township, Muskingum County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Mary Taylor, CPA**  
Auditor of State

July 23, 2007



**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	
<b>Cash Receipts:</b>				
Local Taxes	\$8,836	\$110,826	\$27,811	\$147,473
Intergovernmental	22,269	136,864		159,133
Charges for Services		21,413		21,413
Earnings on Investments	826	236		1,062
Other Revenue	128	2,660		2,788
Total Cash Receipts	32,059	271,999	27,811	331,869
<b>Cash Disbursements:</b>				
Current:				
General Government	28,197			28,197
Public Safety		34,116		34,116
Public Works		122,258		122,258
Health	400			400
Conservation - Recreation		57,955		57,955
Debt Service:				
Redemption of Principal			25,800	25,800
Interest and Fiscal Charges			2,012	2,012
Capital Outlay		58,393		58,393
Total Cash Disbursements	28,597	272,722	27,812	329,131
Total Cash Receipts Over/(Under) Cash Disbursements	3,462	(723)	(1)	2,738
<b>Other Financing Receipts/(Disbursements):</b>				
Proceeds from Sale of Public Debt:				
Sale of Notes		22,500		22,500
Other Uses	(2)			(2)
Total Other Financing Receipts/(Disbursements)	(2)	22,500	0	22,498
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	3,460	21,777	(1)	25,236
Fund Cash Balances, January 1	2,003	144,126	1	146,130
<b>Fund Cash Balances, December 31</b>	<b>\$5,463</b>	<b>\$165,903</b>	<b>\$0</b>	<b>\$171,366</b>

*The notes to the financial statements are an integral part of this statement.*

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	
<b>Cash Receipts:</b>				
Local Taxes	\$8,814	\$102,031	\$33,500	\$144,345
Intergovernmental	18,977	231,826		250,803
Charges for Services		17,373		17,373
Earnings on Investments	475	110		585
Other Revenue		3,338		3,338
Total Cash Receipts	28,266	354,678	33,500	416,444
<b>Cash Disbursements:</b>				
Current:				
General Government	29,400			29,400
Public Safety		31,011		31,011
Public Works		240,611		240,611
Health	245			245
Conservation - Recreation		43,845		43,845
Debt Service:				
Redemption of Principal			30,300	30,300
Interest and Fiscal Charges			3,199	3,199
Capital Outlay		28,282		28,282
Total Cash Disbursements	29,645	343,749	33,499	406,893
Total Cash Receipts Over/(Under) Cash Disbursements	(1,379)	10,929	1	9,551
<b>Other Financing Receipts/(Disbursements):</b>				
Transfers-In		9,317		9,317
Advances-In	900	900		1,800
Transfers-Out		(9,317)		(9,317)
Advances-Out	(900)	(900)		(1,800)
Total Other Financing Receipts/(Disbursements)	0	0	0	0
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(1,379)	10,929	1	9,551
Fund Cash Balances, January 1	3,382	133,197	0	136,579
<b>Fund Cash Balances, December 31</b>	<b>\$2,003</b>	<b>\$144,126</b>	<b>\$1</b>	<b>\$146,130</b>

*The notes to the financial statements are an integral part of this statement.*

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Harrison Township, Muskingum County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, recreation, and fire protection services. The Township contracts with Harrison Township Medical Services Inc. to provide emergency management services

The Township participates in Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. OTARMA is a risk-sharing pool available to Ohio townships for insurance coverage. Note 7 to the financial statements provides additional information for this risk pool membership.

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

**B. Basis of Accounting**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**C. Cash and Investments**

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

**D. Fund Accounting**

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

**1. General Fund**

The General Fund reports all financial resources except those required to be accounted for in another fund.

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds**

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

Gasoline Tax Fund - This fund receives gasoline tax money for constructing, maintaining, and repairing Township roads.

Recreation Levy Fund - This fund receives property tax money from a special levy, and a limited amount of user fees, in order to maintain and operate a swimming pool and recreation area.

Federal Emergency Management Agency (FEMA) – Fire Grant Fund -This fund receives grant money to fund the purchase of equipment, materials, and supplies to be used by the Township's fire department.

**3. Debt Service Funds**

These funds account for resources the Township accumulates to pay bond and note debt. The Township had the following significant Debt Service Fund:

Fire Truck Note Retirement Fund – This fund was established to retire notes issued for the purchase of a fire truck to be used for providing fire protection.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Budgetary Process (Continued)**

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2006 and 2005 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

The Township maintains a cash pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2006	2005
Demand deposits	\$171,366	\$146,130

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending 2005 and 2006 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$33,988	\$32,059	(\$1,929)
Special Revenue	280,613	294,499	13,886
Debt Service	27,812	27,811	(1)
Total	\$342,413	\$354,369	\$11,956

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$35,991	\$28,599	\$7,392
Special Revenue	400,225	272,722	127,503
Debt Service	27,812	27,812	0
Total	\$464,028	\$329,133	\$134,895

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$30,626	\$28,266	(\$2,360)
Special Revenue	356,196	363,995	7,799
Debt Service	33,499	33,500	1
Total	\$420,321	\$425,761	\$5,440

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$32,290	\$29,645	\$2,645
Special Revenue	341,504	353,066	(11,562)
Debt Service	33,499	33,499	0
Total	\$407,293	\$416,210	(\$8,917)

Contrary to Ohio law, the certification of availability of unencumbered appropriations for expenditure was not obtained for all expenditures made during 2006 or 2005.

Contrary to Ohio law, appropriations were not formally approved and certified to the County Auditor by the required date. This resulted in \$20,801 in expenditures during 2005 being illegally made as a result of the expenditures being made prior to formal approval of appropriations.

Contrary to Ohio law, budgetary expenditures exceeded appropriations in the FEMA Fire Grant and FEMA Road Funds by \$66,969 and \$35,425, respectively, for the year ended December 31, 2005.

Although total fund budgetary expenditures did not exceed appropriations in the General, MVL, Road and Bridge, Fire Levy, Road District, and Recreation Levy Funds, expenditures exceeded appropriations at the legal level of control for certain accounts within these funds during 2005, contrary to Ohio law. During 2006, expenditures exceeded appropriations at the legal level of control for certain accounts within the General, Gasoline Tax, Road and Bridge, Fire Levy, and Recreation Levy Funds.

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Township.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

**5. DEBT**

Debt outstanding at December 31, 2006 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Notes - Fire Truck	\$25,800	3.9%
General Obligation Notes - Tractor	22,500	5.50%
Total	<u>\$48,300</u>	

During 2003, the Township issued general obligation notes to finance the purchase of a fire truck for use in providing fire protection services. The Township's taxing authority collateralized the notes. The debt is being retired from the Debt Service – Fire Truck Note Retirement Fund.

During 2006, the Township issued general obligation notes to finance the purchase of a tractor for use in maintaining Township roads. The Township's taxing authority collateralized the notes. There have been no payments on this debt as of December 31, 2006.

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	General Obligation Notes - Tractor	General Obligation Notes - Fire Truck
2007	\$6,863	\$26,806
2008	6,553	0
2009	6,244	0
2010	5,934	0
Total	<u>\$25,594</u>	<u>\$26,806</u>

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**6. RETIREMENT SYSTEMS**

The Township's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS), OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plan benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005, OPERS participants contributed 8.5 percent of their wages. The Township contributed an amount equal to 13.55 percent of participants' gross salaries. For 2006, OPERS participants contributed 9 percent of their wages. The Township contributed an amount equal to 13.70 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

**7. RISK MANAGEMENT**

**Risk Pool Membership**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member townships pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.



**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

**Risk Pool Membership (Continued)**

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005 (the latest information available):

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

**Risk Pool Membership (Continued)**

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$22,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<b><u>Township Contributions to OTARMA</u></b>	
2004	\$10,240
2005	\$10,596
2006	\$10,901

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Harrison Township  
Muskingum County  
553 Front Street  
Philo, Ohio 43771

To the Board of Trustees:

We have audited the financial statements of Harrison Township, Muskingum County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated July 23, 2007, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-005.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated July 23, 2007.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2006-001 through 2006-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated July 23, 2007.

We intend this report solely for the information and use of the audit committee, management, and the Board of Trustees. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

July 23, 2007

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2006-001**

**Noncompliance Citation and Significant Deficiency**

**Estimated Receipts**

Ohio Adm. Code § 117-2-02(C)(1) states all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations. The Township did not properly post budgeted receipts as passed for the legislative authority, and any amendments made to them, to the accounting system. Variances existed between the certificate of estimated resources and the amounts posted to the accounting system throughout the year. The following table details these variances at year end for both years under audit:

<b>2006</b>	<b><u>Fund</u></b>	<b><u>Amount Per Last Amended Certificate</u></b>	<b><u>Amounts Posted to the Accounting System</u></b>	<b><u>Variance</u></b>
	General Fund	\$33,988	\$30,722	(\$3,266)
	Road and Bridge Fund	\$61,090	\$54,497	(\$6,593)
	Fire Fund	\$59,799	\$38,257	(\$21,542)
	Road District Fund	\$21,429	\$18,654	(\$2,775)
	Recreation Fund	\$47,394	\$44,961	(\$2,433)
<b>2005</b>				
	General Fund	\$30,626	\$28,112	(\$2,514)
	Gas Tax Fund	\$76,977	\$65,743	(\$11,234)
	Road and Bridge Fund	\$41,352	\$26,683	(14,669)
	Fire Fund	\$49,767	\$37,636	(12,131)
	Road District Fund	\$25,828	\$19,163	(6,665)
	FEMA Fire Grant Fund	\$66,969	\$4,950	(62,019)

Because the information entered into the accounting system was inaccurate, Township management was unable to effectively monitor budgetary activity throughout the year.

We recommend the Fiscal Officer record only estimated receipts from the Certificate of Estimated Resources and any amendments thereto. The accompanying budgetary presentation includes only budgeted receipts certified to the County Auditor.

**Official's Response:**

We did not receive a response from the Township

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2006-002**

**Noncompliance Citation and Significant Deficiency**

Ohio Rev. Code § 5705.38 states, in part, that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

The Township did not approve, or submit to the County Auditor, their fiscal year 2006 appropriation measure until February 15, 2006. During 2006, but prior to the approval and submission of their annual appropriation measure, the Township made expenditures totaling \$20,801. There was no evidence presented for audit to indicate that a temporary appropriation measure was passed, therefore any expenditure made prior to annual appropriation measure was an illegal expenditure.

We recommend the Board of Trustees approve, and certify to the County Auditor by January 15 of each year, an annual appropriation measure. Expenditures should not be made until this measure is approved and certified by the County Auditor.

**Official's Response:**

We did not receive a response from the Township

**FINDING NUMBER 2006-003**

**Noncompliance Citation and Significant Deficiency**

Ohio Rev. Code § 5705.40 states, in part, that a subdivision may amend or supplement their appropriation measure provided the entity complies with the same provisions of the law as are used in making the original appropriation, that is the amendment be formally approved by the Board of Trustees and certified to the County Auditor.

The Fiscal Officer posted multiple appropriation amendments throughout the audit period to the budgetary accounting system. However, certain amendments posted to the accounting system were not formally approved by the Board of Trustees in the minutes, nor were they certified to the County Auditor. As a result, these amendments were not valid appropriations and should not have been posted to the budgetary accounting system.

We recommend Township management review budgetary procedures for amending appropriations, document the Board approval of all appropriations amendments in the Board minutes, and file all appropriation amendments with the County Auditor in order to receive confirmation from the County Auditor that appropriations do not exceed estimated resources. The Fiscal Officer should post these amendments only after the required approvals have been obtained. The accompanying budgetary presentation in Note 3 includes only appropriations formally approved by the Board.

**Official's Response:**

We did not receive a response from the Township

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2006-004**

**Noncompliance Citation and Significant Deficiency**

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated. During the year ended December 31, 2005, the following Township funds had expenditures which exceeded approved appropriations:

<u>Year</u>	<u>Fund</u>	<u>Appropriation Authority</u>	<u>Disbursements</u>	<u>Variance</u>
2005	FEMA - Fire Grant Fund	\$0	\$66,969	(\$66,969)
2005	FEMA - Road Fund	\$0	\$35,425	(\$35,425)

Additionally, although total fund budgetary expenditures did not exceed appropriations in the following funds during the years ended December 31, 2005 and 2006, expenditures exceeded appropriations at the legal level of control for the following accounts, contrary to Ohio law:

<u>Year</u>	<u>Fund-Function-Object</u>	<u>Appropriation Authority</u>	<u>Disbursements</u>	<u>Variance</u>
2005	1000-110-312	\$200	\$948	(\$748)
2005	2011-330-323	\$3,347	\$4,341	(\$994)
2005	2031-330-211	\$1,500	\$3,191	(\$1,691)
2005	2111-220-353	\$2,300	\$2,927	(\$627)
2005	2111-760-740	\$20,178	\$25,561	(\$5,383)
2005	2141330-599	\$4,606	\$7,895	(\$3,289)
2005	2171-610-190	\$20,000	\$20,973	(\$973)
2005	2171-610-490	\$1,000	\$4,151	(\$3,151)
2006	1000-110-311	\$0	\$930	(\$930)
2006	2021-330-211	\$345	\$2,225	(\$1,880)
2006	2021-330-323	\$0	\$523	(\$523)
2006	2031-330-389	\$100	\$2,272	(\$2,172)
2006	2031-760-740	\$500	\$22,500	(\$22,000)
2006	2111-220-420	\$2,000	\$2,794	(\$794)
2006	2171-760-730	\$12,835	\$17,535	(\$4,700)

The practice of allowing expenditures to exceed appropriations could result in deficit spending within these funds.

The Township Fiscal Officer should deny payment requests exceeding appropriations, as required by Ohio Rev. Code Section 5705.41(D). We recommend the Township Fiscal Officer and Board of Trustees compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then the Board should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

HARRISON TOWNSHIP  
MUSKINGUM COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-004 (Continued)

Noncompliance Citation and Significant Deficiency - Ohio Rev. Code § 5705.41(B) (Continued)

Official's Response:

We did not receive a response from the Township

FINDING NUMBER 2006-005

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" Certificate** - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.
2. **Blanket Certificate** - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.



**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

**FINDING NUMBER 2006-005  
(Continued)**

**Noncompliance Citation and Significant Deficiency (Continued)**

**Ohio Rev. Code § 5705.41 (D) (Continued)**

- 3. Super Blanket Certificate** – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

The Township did not properly certify the availability of funds prior to purchase commitment for 36% and 13% of the expenditures tested in 2006 and 2005, respectively, and there was no evidence that the Township followed the aforementioned exceptions. Without these certifications, the management of the Township lost budgetary control over expenditures and, as more fully explained in Note 3 to the financial statements, this condition could allow noncompliance with Ohio Revised Code Section 5705.41(B) to occur.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the fiscal officer certify that the funds are or will be available prior to an obligation being incurred by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include certification language Section 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Official's Response:**

We did not receive a response from the Township

**HARRISON TOWNSHIP  
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Finding for Recovery – Overpayment of Trustee insurance benefits	Yes	Corrected; Amount paid back by payroll deduction during January and February 2006
2004-002	Ohio Revised Code Section 5705.39 – Appropriations exceeding Estimated Resources.	Yes	Corrected; No instances noted during current audit period
2004-003	Ohio Revised Code Section 5705.40 – Appropriation amendments without proper approval.	No	Not corrected; Reissued as Finding No. 2006-03
2004-004	Ohio Revised Code Section 5705.41 (B) – Expenditures exceeding Appropriations.	No	Not corrected; Reissued as Finding No. 2006-04
2004-005	Ohio Revised Code Section 5705.41 (D) – Prior certification of expenditures.	No	Not corrected; Reissued as Finding No. 2006-05
2004-006	Posting of budgeted receipts to the UAN accounting system	No	Not corrected; Reissued as Finding No. 2006-01
2004-007	Improper posting of receipt transactions	No	Partially corrected; Although reclassifications/adjustments were deemed necessary for certain receipts, the finding was not repeated for the current audit period.
2004-008	Pre-signing of blank checks by the Trustees.	Yes	Corrected; No such instances noted during the current audit.



**Mary Taylor, CPA**  
Auditor of State

**HARRISON TOWNSHIP**

**MUSKINGUM COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 16, 2007**