

MCKEAN TOWNSHIP
LICKING COUNTY
REGULAR AUDIT
JANUARY 1, 2010 – DECEMBER 31, 2011





Dave Yost • Auditor of State

Board of Trustees
McKean Township
1260 Sportsman Club Road NW
Newark, Ohio 43055

We have reviewed the *Independent Auditors' Report* of McKean Township, Licking County, prepared by Wilson, Shannon & Snow, Inc., for the audit period January 1, 2010 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditors' Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditors' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. McKean Township is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

July 30, 2012

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**MCKEAN TOWNSHIP
LICKING COUNTY**

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INDEPENDENT AUDITORS' REPORT

McKean Township
Licking County
1260 Sportsman Club Road NW
Newark, Ohio 43055

To the Board of Trustees:

We have audited the accompanying financial statements of McKean Township, Licking County, (the Township) as of and for the years ended December 31, 2011 and 2010. 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. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Townships to reformat their statements. The Township has elected not to follow GAAP statement formatting 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.

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, 2011 and 2010 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, 2011 and 2010, or its changes in financial position for the years then ended.

Wilson, Shannon & Snow, Inc.

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McKean Township
Licking County
Independent Auditors' Report
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Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010 of McKean Township, Licking County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 McKean Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2012, 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.

Wilson, Shuman & Snow, Inc.

June 10, 2012

**MCKEAN TOWNSHIP
LICKING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Cash Receipts:				
Local Taxes	\$ 30,378	\$ 216,542	\$ -	\$ 246,920
Intergovernmental	35,154	127,016	-	162,170
Licenses, Permits, and Fees	790	4,350	-	5,140
Earnings on Investments	121	94	3	218
Other Revenue	-	35	-	35
	<u>66,443</u>	<u>348,037</u>	<u>3</u>	<u>414,483</u>
Total Cash Receipts				
	<u>66,443</u>	<u>348,037</u>	<u>3</u>	<u>414,483</u>
Cash Disbursements:				
Current:				
General Government	62,921	-	-	62,921
Public Safety	-	172,545	-	172,545
Public Works	-	187,724	-	187,724
Health	3,000	5,825	-	8,825
Human Services	-	8,837	-	8,837
Debt Service:				
Redemption of Principal	-	39,826	-	39,826
Interest and Fiscal Charges	-	3,481	-	3,481
Capital Outlay	-	35,237	-	35,237
	<u>65,921</u>	<u>453,475</u>	<u>-</u>	<u>519,396</u>
Total Cash Disbursements				
	<u>65,921</u>	<u>453,475</u>	<u>-</u>	<u>519,396</u>
Total Receipts Over (Under) Disbursements	<u>522</u>	<u>(105,438)</u>	<u>3</u>	<u>(104,913)</u>
Other Financing Receipts and (Disbursements):				
Note Proceeds	-	70,000	-	70,000
Other Financing Sources	1,429	-	-	1,429
Other Financing Uses	(3,370)	-	-	(3,370)
	<u>(1,941)</u>	<u>70,000</u>	<u>-</u>	<u>68,059</u>
Total Other Financing Receipts/(Disbursements)				
	<u>(1,941)</u>	<u>70,000</u>	<u>-</u>	<u>68,059</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(1,419)	(35,438)	3	(36,854)
Fund Cash Balances, January 1	47,774	138,003	252	186,029
Fund Cash Balances, December 31	<u>\$ 46,355</u>	<u>\$ 102,565</u>	<u>\$ 255</u>	<u>\$ 149,175</u>
Fund Cash Balance, December 31				
Restricted	\$ -	\$ 102,565	\$ 255	\$ 102,820
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned (Deficit)	46,355	-	-	46,355
Fund Cash Balance, December 31	<u>\$ 46,355</u>	<u>\$ 102,565</u>	<u>\$ 255</u>	<u>\$ 149,175</u>

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

**MCKEAN TOWNSHIP
LICKING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Permanent	
Cash Receipts:				
Local Taxes	\$ 29,093	\$ 212,756	\$ -	\$ 241,849
Intergovernmental	42,338	134,569	-	176,907
Licenses, Permits, and Fees	130	5,750	-	5,880
Earnings on Investments	134	117	3	254
Other Revenue	-	3,079	-	3,079
	71,695	356,271	3	427,969
Cash Disbursements:				
Current:				
General Government	66,921	-	-	66,921
Public Safety	-	167,829	-	167,829
Public Works	-	163,026	-	163,026
Health	2,500	5,825	-	8,325
Human Services	-	7,616	-	7,616
Debt Service:				
Redemption of Principal	-	10,466	-	10,466
Interest and Fiscal Charges	-	2,343	-	2,343
	69,421	357,105	-	426,526
Total Receipts Over (Under) Disbursements	2,274	(834)	3	1,443
Other Financing Receipts and (Disbursements):				
Other Financing Sources	3,957			3,957
Other Financing Uses	(2,523)	-	-	(2,523)
	1,434	-	-	1,434
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	3,708	(834)	3	2,877
Fund Cash Balances, January 1	44,066	138,837	249	183,152
Fund Cash Balances, December 31	\$ 47,774	\$ 138,003	\$ 252	\$ 186,029

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

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 McKean Township, Licking County, (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, cemetery maintenance, and contracts with Granville Township for fire protection and emergency medical services.

The Township participates in the Ohio Government Risk Management Plan, a public entity risk pool. Note 7 to the financial statements provides additional information for this entity

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

B. Accounting Basis

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. Deposits 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.

The Township values its repurchase agreement at cost.

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.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(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 private-purpose 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 to pay for constructing, maintaining, and repairing Township roads.

Fire District Fund - This money receives taxes and intergovernmental money for fire protection of the Township persons and property.

3. Permanent Fund

This fund accounts for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following permanent fund:

Cemetery Endowment Fund - This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemetery.

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.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(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 2011 and 2010 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.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

H. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fund Balance (Continued)

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

2. Equity in Pooled Deposits and Investments

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

	2011	2010
Demand deposits	\$50,000	\$50,000
Total deposits	50,000	50,000
Repurchase agreement	99,175	136,029
Total investments	99,175	136,029
Total deposits and investments	\$149,175	\$186,029

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

Investments: The Township's financial institution transfers securities to the Township's agent to collateralize repurchase agreements. The securities are not in the Township's name.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(CONTINUED)**

3. Budgetary Activity

Budgetary activity for the years ending 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$58,277	\$67,872	\$9,595
Special Revenue	343,556	418,037	74,481
Permanent	0	3	3
Total	\$401,833	\$485,912	\$84,079

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$105,051	\$69,291	\$35,760
Special Revenue	476,059	453,475	22,584
Total	\$581,110	\$522,766	\$58,344

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$66,956	\$75,652	\$8,696
Special Revenue	340,205	356,271	16,066
Debt Service	71,000	0	(71,000)
Permanent	0	3	3
Total	\$478,161	\$431,926	(\$46,235)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$101,023	\$71,944	\$29,079
Special Revenue	479,042	357,105	121,937
Permanent	249	0	249
Total	\$580,314	\$429,049	\$151,265

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Special Revenue – Road and Bridge Fund at the legal level of control by \$35,237, \$43,307 in 2011 and \$12,809 in 2010. The Township did not also comply with Ohio Administrative Code 117-2-02 (A), Ohio Revised Code 5705.36(A), or Ohio Revised Code Section 5705.40 for the funds identified for the year ended December 31, 2011.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(CONTINUED)**

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax 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.

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, 2011 was as follows:

	Principal	Interest Rate
Backhoe	\$64,937	4.56%

The Township issued road equipment notes in 2011 for the purchase of a new Ford F-550 Truck and also to refinance the outstanding 2007 backhoe notes. The Township's taxing authority collateralized the notes.

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

	Road Equipment Note
Year ending December 31:	
2012	\$13,485
2013	13,485
2014	13,485
2015	13,485
2016	13,485
2017	6,743
Total	\$74,168

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(CONTINUED)**

6. Retirement Systems

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2011.

7. Risk Management

Risk Pool Membership

Prior to 2009, the Township belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009 respectively. The Township does not participate in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium ("OPHC"), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(CONTINUED)**

7. Risk Management (Continued)

These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009 respectively. The Township does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2010 and 2009 (the latest information available), and include amounts for both OPRM and OPHC:

	2010		2009	
	<u>OPRM</u>	<u>OPHC</u>	<u>OPRM</u>	<u>OPHC</u>
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members' Equity	\$7,191,485	\$300,035	\$6,323,701	\$105,185

You can read the complete audited financial statements for OPRM and OPHC at the Plan's website, www.ohioplan.com.



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

McKean Township
Licking County
1260 Sportsman Club Road NW
Newark, Ohio 43055

To the Board of Trustees:

We have audited the financial statements of McKean Township, Licking County, Ohio (the Township) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated June 10, 2012, 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 and as described in Note 1 adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of 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 internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2011-01 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Wilson, Shannon & Snow, Inc.

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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 we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-02 and 2011-03.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated June 10, 2012.

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

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

Wilson, Shuman & Snow, Inc.

June 10, 2012

**MCKEAN TOWNSHIP
LICKING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2011-01
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Financial Statement Presentation - Significant Deficiency

A monitoring system should be in place to prevent or detect material misstatements for the accurate presentation of the Township's financial statements.

The Fiscal Officer did not always accurately post receipts and disbursements to the Township's accounting system and financial statements. The following posting errors were noted:

- In the Special Revenue Fund-Motor Vehicle License Tax Fund, Motor Vehicle License Taxes of \$10,056 and \$9,663 were reclassified from other revenue to intergovernmental for 2011 and 2010, respectively.
- In the Special Revenue Fund-Road and Bridge Fund, principal and interest payments were reclassified from public works to principal of \$5,063 and interest of \$3,481 in 2011 and \$10,466 and \$2,343, respectively, in 2010.
- We also noted adjustments within the Special Revenue Fund Road and Bridge Fund which have been reported under Finding 2011-02.

Not posting receipts and disbursements accurately to the ledgers resulted in the financial statements requiring audit reclassifications and adjustments; furthermore, inaccurate accounting records could make it difficult for the Board of Trustees to effectively monitor the Township's activities or identify misstatements or errors in a timely manner. We recommend the Township's Fiscal Officer takes steps to ensure the accurate posting of all transactions to the ledgers. Cash receipts and disbursements should be posted in accordance with procedures and posting guidelines established in the Uniform Accounting Network line item descriptions and Ohio Township Handbook.

Officials Response: We did not receive a response for this finding.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(CONTINUED)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	2011-02
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Recording and Budgeting On-Behalf Transactions

Ohio Administrative Code Section 117-2-02 (A) provides that all local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

Ohio Revised Code Section 5705.36(A)(3) allows all subdivisions to request an increased amended certificate of estimated resources upon determination by the fiscal officer that revenue to be collected will be greater than the amount in the official certificate. An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

Ohio Revised Code Section 5705.40 requires that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation.

During 2011, the Board of Trustees entered into an agreement with a local financial institution totaling \$70,000 for the purpose of purchasing road equipment and refinancing existing debt associated with the purchase of a 2007 backhoe. The financial institution made the check payable directly to the vendor. The Township Fiscal Officer did not post the debt proceeds, capital outlay expenditure, or the principal retirement within its financial records. As a result, receipts and disbursements were understated within the Township's financial records and financial statements for 2011.

Adjustments with which the Township agrees are reflected in the accompanying financial statements. This also resulted in violation of Ohio Revised Code Section 5705.41(B) within the Special Revenue Road Bridge Fund as this activity was not budgeted by the Township Trustees. (See Finding No. 2011-03).

We recommend the Township Fiscal Officer record all debt proceeds and the corresponding expenditures in the Township's books.

Officials Response: We did not receive a response for this finding.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(CONTINUED)**

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

Finding Number	2011-03
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Ohio Revised Code Section 5705.41(B) requires that no subdivision is to expend money unless it has been appropriated. We noted the following fund which had expenditures exceeding appropriations at December 31, 2011:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Noncompliance</u>
Special Revenue – Road and Bridge Fund – Capital Outlay	\$35,237	\$0	\$(35,237)
Special Revenue – Road and Bridge Fund – Debt	43,307	\$0	(43,307)

We also noted the following fund had expenditures exceeding appropriations at December 31, 2010:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Noncompliance</u>
Special Revenue – Road and Bridge Fund – Debt	\$12,809	\$0	\$(12,809)

We recommend that the Township comply with Ohio Revised Code and Auditor of State Bulletin 97-010 by monitoring expenditures so they do not exceed lawful appropriations. This may be achieved by monitoring the budget more closely on a continual basis and making appropriation amendments as necessary. Furthermore, the Township should record all financial transactions which are paid on-behalf of the Township during the year within its accounting records and budget such amounts as described in Finding Number 2011-02.

Officials Response: We did not receive a response for this finding.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Ohio Revised Code Section 5705.39 states that total appropriations from each fund should not exceed total estimated revenue.	Yes	NA.



Dave Yost • Auditor of State

MCKEAN TOWNSHIP

LICKING 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
AUGUST 09, 2012**