



**Auditor of State
Betty Montgomery**

**PENN TOWNSHIP
MORGAN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Penn Township
Morgan County
460 West Shrivvers Road
Stockport, Ohio 43787

To the Board of Trustees:

We have audited the accompanying financial statements of Penn Township, Morgan County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Penn Township, Morgan County, as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Penn Township
Morgan County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of the audit committee, management, the Board of Trustees and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 10, 2004

PENN TOWNSHIP
MORGAN COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Governmental Fund Types		Fiduciary Fund Types		Totals (Memorandum Only)
	General	Special Revenue	Nonexpendable Trust	Expendable Trust	
Cash Receipts:					
Local Taxes	\$ 11,450	\$ 16,546	\$	\$	\$ 27,996
Intergovernmental	12,538	75,054			87,592
Earnings on Investments	736	821			1,557
Other Revenue	150	515		5,000	5,665
Total Cash Receipts	24,874	92,936	0	5,000	122,810
Cash Disbursements:					
Current:					
General Government	21,457				21,457
Public Safety		9,427			9,427
Public Works	1,484	64,940			66,424
Health	3,330	5,226			8,556
Debt Service:					
Redemption of Principal		3,699			3,699
Interest and Fiscal Charges		838			838
Capital Outlay		70,000			70,000
Total Cash Disbursements	26,271	154,130	0	0	180,401
Total Cash Receipts Over/(Under) Cash Disbursements	(1,397)	(61,194)	0	5,000	(57,591)
Other Financing Receipts/(Disbursements):					
Proceeds from Notes		70,300			70,300
Transfers-In		9,007			9,007
Transfers-Out		(9,007)			(9,007)
Total Other Financing Receipts/(Disbursements)	0	70,300	0	0	70,300
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(1,397)	9,106	0	5,000	12,709
Fund Cash Balances, January 1	10,433	79,377	1,378	0	91,188
Fund Cash Balances, December 31	\$ 9,036	\$ 88,483	\$ 1,378	\$ 5,000	\$ 103,897

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

PENN TOWNSHIP
MORGAN COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Types</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Nonexpendable Trust</u>	
Cash Receipts:					
Local Taxes	\$ 11,598	\$ 16,835	\$	\$	\$ 28,433
Intergovernmental	16,943	58,102	2,800		77,845
Earnings on Investments	832	907			1,739
Other Revenue	112	366			478
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	29,485	76,210	2,800	0	108,495
Cash Disbursements:					
Current:					
General Government	25,045				25,045
Public Safety		9,353			9,353
Public Works	5,984	62,959			68,943
Health	3,268	4,728			7,996
Debt Service:					
Redemption of Principal			2,159		2,159
Interest and Fiscal Charges			465		465
Capital Outlay			12,000		12,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	34,297	77,040	14,624	0	125,961
Total Cash Receipts Over/(Under) Cash Disbursements	(4,812)	(830)	(11,824)	0	(17,466)
Other Financing Receipts/(Disbursements):					
Proceeds from Notes			12,124		12,124
Transfers-In		2,471			2,471
Transfers-Out			(2,471)		(2,471)
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Total Other Financing Receipts/(Disbursements)	0	2,471	9,653	0	12,124
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(4,812)	1,641	(2,171)	0	(5,342)
Fund Cash Balances, January 1	15,245	77,736	2,171	1,378	96,530
Fund Cash Balances, December 31	<u>\$ 10,433</u>	<u>\$ 79,377</u>	<u>\$ 0</u>	<u>\$ 1,378</u>	<u>\$ 91,188</u>

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

**PENN TOWNSHIP
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Penn Township, Morgan County (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees and a publicly-elected Clerk. The Township provides general governmental services, including road and bridge maintenance (public works), cemetery maintenance (health), fire protection and emergency medical services (public safety). The Township contracts with the Village of Pennsville and Village of Malta to provide fire services and emergency medical services.

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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash and Investments

The Township Clerk invests all available funds of the Township in an interest-bearing checking account.

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

**PENN TOWNSHIP
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Debt Service Funds

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness. The Township had the following significant Debt Service Fund:

General Note Retirement Fund - This fund receives distributions of gasoline tax money to retire debt incurred by the Township for road maintenance.

4. Fiduciary Funds (Trust Funds)

These funds are used to account for resources restricted by legally binding trust agreements. The Township had the following significant Fiduciary Funds:

Cemetery Bequest Fund - This fund is used to pay for the cost of maintaining the Township's cemeteries by receiving donations and gifts for that purpose. It is classified as a Nonexpendable trust Fund.

Howard Nolan Trust Fund - This fund received a gift of \$5,000 to be used to pay for a memorial, a shelter house and the development of a mini-park. It is classified as an Expendable Trust Fund.

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, 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.

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. The Township did not encumber all commitments required by Ohio law.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**PENN TOWNSHIP
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH

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

	2003	2002
Demand deposits	\$ 103,897	\$ 91,188

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 25,200	\$ 24,874	\$ (326)
Special Revenue	79,175	172,243	93,068
Nonexpendable Trust	0	0	0
Expendable Trust	0	5,000	5,000
Total	\$ 104,375	\$ 202,117	\$ 97,742

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 39,966	\$ 26,271	\$ 13,695
Special Revenue	153,915	163,137	(9,222)
Nonexpendable Trust	1,300	0	1,300
Expendable Trust	0	0	0
Total	\$ 195,181	\$ 189,408	\$ 5,773

**PENN TOWNSHIP
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 30,990	\$ 29,485	\$ (1,505)
Special Revenue	78,650	78,681	31
Debt Service	4,800	14,924	10,124
Nonexpendable Trust	0	0	0
Total	\$ 114,440	\$ 123,090	\$ 8,650

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 49,766	\$ 34,297	\$ 15,469
Special Revenue	155,245	77,040	78,205
Debt Service	6,900	17,095	(10,195)
Nonexpendable Trust	1,300	0	1,300
Total	\$ 213,211	\$ 128,432	\$ 84,779

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, 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, 2003 was as follows:

	Principal	Interest Rate
Promissory Note - Tractor	\$ 6,266	5.75%
Promissory Note - Grader	70,300	4.25%
Total	\$ 76,566	

**PENN TOWNSHIP
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

5. DEBT (Continued)

The Township issued a promissory note in 2002 for \$12,124 for the purchase of a tractor. This note is backed by the full faith and credit of the Township.

The Township issued a promissory note in 2003 for \$70,300 for the purchase of a grader. This note is backed by the full faith and credit of the Township.

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

Year Ending December 31:	Promissory Note for Tractor	Promissory Note for Grader
2004	\$ 2,728	\$ 15,902
2005	2,728	15,902
2006	1,364	15,902
2007		15,902
2008		15,902
Total	\$ 6,820	\$ 79,510

6. RETIREMENT SYSTEM

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, members of PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all employer contributions required through December 31, 2003.

7. RISK MANAGEMENT

Risk Pool Membership

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 governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

**PENN TOWNSHIP
MORGAN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

7. RISK MANAGEMENT (Continued)

Risk Pool Membership (Continued)

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed operating contributions.

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.

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, 2002 and 2001 (the latest information available):

<u>Casualty Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$ 23,757,036	\$ 23,707,776
Liabilities	<u>(9,197,512)</u>	<u>(9,379,003)</u>
Retained Earnings	<u>\$ 14,559,524</u>	<u>\$ 14,328,773</u>
<u>Property Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$ 6,596,996	\$ 5,011,131
Liabilities	<u>(1,204,326)</u>	<u>(647,667)</u>
Retained Earnings	<u>\$ 5,392,670</u>	<u>\$ 4,363,464</u>



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Penn Township
Morgan County
460 West Shrivvers Road
Stockport, Ohio 43787

To the Board of Trustees:

We have audited the accompanying financial statements of Penn Township, Morgan County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated March 10, 2004. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated March 10, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated March 10, 2004.

Penn Township
Morgan County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of the audit committee, management, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 10, 2004

**PENN TOWNSHIP
MORGAN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002**

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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 taxing authority (Board of Trustees) can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$1,000 (\$3,000 after April 7, 2003) for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

Seventy-six percent (76%) of the expenditures tested did not have the prior certification of the Township Clerk and neither of the above exceptions had been met.

We recommend the Township's employees and officials obtain the certification of the Township Clerk prior to a commitment being incurred.

**PENN TOWNSHIP
MORGAN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-41058-001	A material noncompliance citation was issued under Ohio Rev. Code Section 5705.41(D) for failing to obtain the prior certification of the Clerk.	No	Not Corrected: Repeated in the current audit as Finding 2003-001.
2001-41058-002	A material noncompliance citation was issued under Ohio Rev. Code Section 505.24 for paying 33% of the Trustees' salaries from the Motor Vehicle License Tax Fund and 67% from the Gasoline Tax Fund. A finding for adjustment was issued against the General Fund in the amount of \$3,683 and in favor of the Motor Vehicle License Tax Fund for \$1,228 and the Gasoline Tax Fund for \$2,455, respectively, as of December 31, 2001.	Yes	N/A



**Auditor of State
Betty Montgomery**

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PENN TOWNSHIP

MORGAN 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
JUNE 10, 2004**