

Franklin Township

Jackson County, Ohio

Regular Audit

For the Years Ended December 31, 2004 and 2003

BALESTRA, HARR & SCHERER, CPAs, INC.

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**Auditor of State
Betty Montgomery**

Board of Trustees
Franklin Township
2814 Bert Harrold Road
Jackson, Ohio 45640

We have reviewed the *Independent Auditor's Report* of Franklin Township, Jackson County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period January 1, 2003 through December 31, 2004. 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's Office (AOS). Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the 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. 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 Auditor's Report* also includes an opinion on the financial statements using the regulatory format the AOS 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. Franklin Township is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

April 5, 2006

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**FRANKLIN TOWNSHIP
JACKSON COUNTY**

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Ohio Society of Certified Public Accountants

Independent Auditor's Report

Board of Trustees
Franklin Township
Jackson County, Ohio
2814 Bert Harrold Road
Jackson, OH 45640

We have audited the accompanying financial statements of Franklin Township, Jackson County, (the Township) as of and for the years ended December 31, 2004 and 2003. 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 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 that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the government 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. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

Revisions to GAAP require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the funds accompanying financial statements presented for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards require 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 reformat its statements. Since the Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts are materially misstated under 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 paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township's combined funds as of December 31, 2004, or their changes in financial position for the years then ended.

Franklin Township
Independent Auditors' Report
Page 2

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Franklin Township, Jackson County, as of December 31, 2004 and 2003, 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 2, 2006, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.



Balestra, Harr & Scherer, CPAs, Inc.

March 2, 2006

FRANKLIN TOWNSHIP
JACKSON 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, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Fiduciary Fund</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$67,656	\$24,351	\$0	\$92,007
Intergovernmental Receipts	42,287	174,908	0	217,195
Earnings on Investments	308	117	140	565
Miscellaneous	4,362	507	0	4,869
	<u>114,613</u>	<u>199,883</u>	<u>140</u>	<u>314,636</u>
Cash Disbursements:				
Current:				
General Government	81,836	0	0	81,836
Public Safety	0	25,000	0	25,000
Public Works	14,196	169,584	0	183,780
Health	7,697	0	0	7,697
Debt Service:				
Principal Payments	0	10,584	0	10,584
Interest Payments	0	2,016	0	2,016
Capital Outlay	41,657	0	0	41,657
	<u>145,386</u>	<u>207,184</u>	<u>0</u>	<u>352,570</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(30,773)</u>	<u>(7,301)</u>	<u>140</u>	<u>(37,934)</u>
Other Financing Receipts/(Disbursements):				
Other Financing Receipts	2,756	0	0	2,756
Other Financing Disbursements	(500)	0	0	(500)
	<u>2,256</u>	<u>0</u>	<u>0</u>	<u>2,256</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(28,517)</u>	<u>(7,301)</u>	<u>140</u>	<u>(35,678)</u>
Fund Cash Balances, January 1	<u>141,467</u>	<u>127,818</u>	<u>5,180</u>	<u>274,465</u>
Fund Cash Balances, December 31	<u>\$112,950</u>	<u>\$120,517</u>	<u>\$5,320</u>	<u>\$238,787</u>
Reserves for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

FRANKLIN TOWNSHIP
JACKSON 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**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Fiduciary Fund</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$63,498	\$22,502	\$0	\$86,000
Intergovernmental Receipts	42,577	184,701	0	227,278
Earnings on Investments	758	388	80	1,226
Miscellaneous	690	5,270	0	5,960
	<u>107,523</u>	<u>212,861</u>	<u>80</u>	<u>320,464</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	81,835	0	0	81,835
Public Safety	1,635	65,267	0	66,902
Public Works	13,886	152,869	0	166,755
Health	8,195	0	0	8,195
Debt Service:				
Principal Payments	0	10,584	0	10,584
Interest Payments	0	2,016	0	2,016
Capital Outlay	8,286	0	0	8,286
	<u>113,837</u>	<u>230,736</u>	<u>0</u>	<u>344,573</u>
Total Cash Disbursements				
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(6,314)</u>	<u>(17,875)</u>	<u>80</u>	<u>(24,109)</u>
Other Financing Receipts/(Disbursements):				
Other Financing Receipts	5,039	0	0	5,039
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(1,275)</u>	<u>(17,875)</u>	<u>80</u>	<u>(19,070)</u>
Fund Cash Balances, January 1	<u>142,742</u>	<u>145,693</u>	<u>5,100</u>	<u>293,535</u>
Fund Cash Balances, December 31	<u>\$141,467</u>	<u>\$127,818</u>	<u>\$5,180</u>	<u>\$274,465</u>
Reserves for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Franklin Township, Jackson 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. The Township provides road and bridge and cemetery maintenance. The Township contracts with the City of Jackson to provide fire protection 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.

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit are valued 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 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 (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:

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

Permissive Sales Tax Fund – This fund receives monies from permissive sales tax proceeds for permanent improvement projects within the Township.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Fiduciary Fund

This fund is used to account for resources restricted by a legally binding trust agreement. The Township had the following Nonexpendable Trust Fund:

Cemetery Bequest Fund – This fund receives interest revenue earned on bequest monies to be used for the maintenance of the Township 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 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 2004 and 2003 budgetary activity appears in Note 3.

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.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2. EQUITY IN POOLED CASH

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

	2004	2003
Demand deposits	\$206,345	\$245,624
Certificates of deposit	32,442	28,841
Total deposits	\$238,787	\$274,465

Deposits: Deposits are either 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 December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$66,435	\$117,369	\$50,934
Special Revenue	165,607	199,883	34,276
Nonexpendable Trust	140	140	0
Total	\$232,182	\$317,392	\$85,210

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$207,688	\$145,886	\$61,802
Special Revenue	294,641	207,184	87,457
Nonexpendable Trust	4,317	0	4,317
Total	\$506,646	\$353,070	\$153,576

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$66,435	\$112,562	\$46,127
Special Revenue	162,279	212,861	50,582
Nonexpendable Trust	142	80	(62)
Total	\$228,856	\$325,503	\$96,647

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$240,626	\$113,837	\$126,789
Special Revenue	355,066	230,736	124,330
Nonexpendable Trust	4,227	0	4,227
Total	\$599,919	\$344,573	\$255,346

Contrary to Ohio Law, Appropriations Exceeded Available Resources in 2003 by \$31,449 in the General Fund, \$2,570 in the Gas Tax Fund, and \$43,578 in the FEMA fund. In addition, receipts were collected and appropriated in excess of Estimated Receipts in 2003 for the General and Special Revenue Funds.

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, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Notes	\$ 22,886	5.50%

The general obligation note was issued to finance the purchase of a new dump truck to be used for Township road maintenance.

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

	<u>General Obligation Notes</u>
Year ending December 31:	
2005	12,601
2006	12,601
Total	<u><u>\$25,202</u></u>

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. The 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 2004 and 2003, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2004 and 2003. The Township has paid all contributions required through December 31, 2004.

7. RISK MANAGEMENT POOL

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 insurance 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 judgements, settlements and other expenses resulting from covered claims that exceed the member's deductibles.

Casualty Insurance

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

7. RISK MANAGEMENT POOL (Continued)

\$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.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(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 \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000 on any specific loss. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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:

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	<u>(11,791,300)</u>	<u>(9,197,512)</u>
Retained Earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>

<u>Property Coverage</u>		
Assets	\$6,791,060	\$6,596,996
Liabilities	<u>(750,956)</u>	<u>(1,204,326)</u>
Retained Earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Franklin Township
Jackson County, Ohio
2814 Bert Harrold Road
Jackson, OH 45640

We have audited the accompanying financial statements of Franklin Township, Jackson County, Ohio (the Township), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated March 2, 2006, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audits 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Township's internal control over financial reporting in order to determine auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 audits and, accordingly, we do not express such an opinion. The results of our test disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of Findings as item 2004-001.

Franklin Township
Jackson County
Report on Internal Control Over Financial Reporting and on Compliance
And Other Matters Based on An Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards*

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 cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

March 2, 2006

**FRANKLIN TOWNSHIP
JACKSON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2004-001

Noncompliance Citation

Ohio Rev. Code § 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

An increased amended certificate must be obtained from the budget commission if the legislative authority intends to appropriate and expend the excess revenue.

The total appropriations made during a fiscal year from any fund must not exceed the amount contained in the certificate of estimated resources or the amended certificate of estimated resources which was certified prior to making the appropriation or supplemental appropriation.

The Township's appropriations exceeded available resources in 2003 in the General Fund by \$31,449, the Gas Tax Fund by \$2,570 and in the FEMA fund by \$43,578. Furthermore, receipts were collected and appropriated in excess of estimates in 2003 as follows: General fund by \$46,126, and Gasoline Tax Fund by \$6,669, and FEMA fund by \$43,578.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2002-001	Revised Code 5705.41(D), no prior certification	Yes	



**Auditor of State
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FRANKLIN TOWNSHIP

JACKSON 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
APRIL 17, 2006**