

Morgan Township

Gallia County, Ohio

Regular Audit

For the Years Ended December 31, 2004 and 2003

**BALESTRA, HARR & SCHERER, CPAs, INC.**

528 South West Street, P.O. Box 687

Piketon, Ohio 45661

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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Morgan Township  
4240 Morgan Lane  
Vinton, Ohio 45686

We have reviewed the *Independent Auditor's Report* of Morgan Township, Gallia 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. Morgan Township is responsible for compliance with these laws and regulations.

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BETTY MONTGOMERY  
Auditor of State

January 17, 2006

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**MORGAN TOWNSHIP  
GALLIA COUNTY**

**TABLE OF CONTENTS**

| <b><u>TITLE</u></b>   | <b><u>PAGE</u></b> |
|---|--------------------|
| Independent Auditors' Report.....   | 1                  |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in<br>Fund Cash Balances – All Governmental Fund Types -<br>For the Year Ended December 31, 2004.....                                      | 3                  |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in<br>Fund Cash Balances – All Governmental Fund Types -<br>For the Year Ended December 31, 2003.....                                      | 4                  |
| Notes to the Financial Statements.....  | 5                  |
| Report on Internal Control Over Financial Reporting and on Compliance and<br>Other Matters Based on an Audit of Financial Statements Performed in<br>Accordance with <i>Government Auditing Standards</i> ..... | 11                 |
| Schedule of Findings.....   | 13                 |
| Schedule of Prior Audit Findings.....   | 16                 |

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Ohio Society of Certified Public Accountants

## **Independent Auditor's Report**

Board of Trustees  
Morgan Township  
Gallia County, Ohio  
4240 Morgan Lane  
Vinton, Ohio 45686

We were engaged to audit the accompanying financial statements of Morgan Township, Gallia County, Ohio, (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.

The Township did not provide sufficient records, documents, and evidential matter to support the accuracy, existence, and completeness of recorded receipts and disbursements and we were unable to satisfy ourselves as to those receipts, disbursements and fund cash balances by other auditing procedures.

Because of lack of sufficient evidence, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

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.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present 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 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 Townships to reformat their statements. The Township has elected not to reformat its statements.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. 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.

The Township is experiencing certain financial difficulties. These conditions and management's plans to address these conditions are described in Note 8.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2005, on our consideration of the Village'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the management, the Board of Trustees, and other officials authorized to receive this report under §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 cursive script that reads "Balestra, Harr & Scherer". The signature is written in dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.  
November 4, 2005

**MORGAN TOWNSHIP  
GALLIA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,  
AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

|   | <b>Governmental Fund Types</b> |                            | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|---|--------------------------------|----------------------------|---|
|   | <b>General</b>                 | <b>Special<br/>Revenue</b> |   |
| <b>Cash Receipts:</b>   |                                |                            |   |
| Local Taxes   | \$ 21,654                      | \$ 5,881                   | \$ 27,535                               |
| Licenses, Permits, and Fees   | 8,909                          | 0                          | 8,909                                   |
| Intergovernmental   | 5,454                          | 89,479                     | 94,933                                  |
| Earnings on Investments   | 12                             | 37                         | 49                                      |
| Other Receipts  | 713                            | 18,301                     | 19,014                                  |
| <b>Total Cash Receipts</b>  | <b>36,742</b>                  | <b>113,698</b>             | <b>150,440</b>                          |
| <b>Cash Disbursements:</b>  |                                |                            |   |
| Current:  |                                |                            |   |
| General Government  | 29,605                         | 0                          | 29,605                                  |
| Public Safety   | 0                              | 4,218                      | 4,218                                   |
| Public Works  | 0                              | 105,639                    | 105,639                                 |
| Capital Outlay  | 0                              | 15,040                     | 15,040                                  |
| Principal Payments  | 0                              | 2,921                      | 2,921                                   |
| Interest and Fiscal Charges   | 0                              | 298                        | 298                                     |
| <b>Total Cash Disbursements</b>   | <b>29,605</b>                  | <b>128,116</b>             | <b>157,721</b>                          |
| <b>Total Cash Receipts Over/(Under) Cash Disbursements</b>  | <b>7,137</b>                   | <b>(14,418)</b>            | <b>(7,281)</b>                          |
| <b>Other Financing Sources/(Uses)</b>   |                                |                            |   |
| Proceeds of Notes   | 0                              | 15,040                     | 15,040                                  |
| <b>Total Other Financing Sources/(Uses)</b>   | <b>0</b>                       | <b>15,040</b>              | <b>15,040</b>                           |
| <b>Total Receipts and Other Financing Sources Over/Under<br/>Disbursements and Other Financing Uses</b> | <b>7,137</b>                   | <b>622</b>                 | <b>7,759</b>                            |
| <b>Fund Cash Balances, January 1</b>  | <b>(18,479)</b>                | <b>27,119</b>              | <b>8,640</b>                            |
| <b>Fund Cash Balances, December 31</b>  | <b>\$ (11,342)</b>             | <b>\$ 27,741</b>           | <b>\$ 16,399</b>                        |

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



**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

|   | <u>Governmental Fund Types</u> |                            | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|---|--------------------------------|----------------------------|---|
|   | <u>General</u>                 | <u>Special<br/>Revenue</u> |   |
| <b>Cash Receipts:</b>                               |                                |                            |   |
| Local Taxes   | \$ 32,076                      | \$ 6,679                   | \$ 38,755                               |
| Licenses, Permits, and Fees                         | 8,909                          | 0                          | 8,909                                   |
| Intergovernmental                                   | 0                              | 92,651                     | 92,651                                  |
| Earnings on Investments                             | 13                             | 39                         | 52                                      |
|   | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Receipts                                 | 40,998                         | 99,369                     | 140,367                                 |
|   | <hr/>                          | <hr/>                      | <hr/>                                   |
| <b>Cash Disbursements:</b>                          |                                |                            |   |
| Current:  |                                |                            |   |
| General Government                                  | 41,673                         | 0                          | 41,673                                  |
| Public Safety                                       | 0                              | 6,074                      | 6,074                                   |
| Public Works  | 0                              | 79,416                     | 79,416                                  |
|   | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Disbursements                            | 41,673                         | 85,490                     | 127,163                                 |
|   | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Receipts Over/(Under) Cash Disbursements | (675)                          | 13,879                     | 13,204                                  |
|   | <hr/>                          | <hr/>                      | <hr/>                                   |
| Fund Cash Balances, January 1                       | (17,804)                       | 13,240                     | (4,564)                                 |
|   | <hr/>                          | <hr/>                      | <hr/>                                   |
| <b>Fund Cash Balances, December 31</b>              | <u>\$ (18,479)</u>             | <u>\$ 27,119</u>           | <u>\$ 8,640</u>                         |

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

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Morgan Township, Gallia 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 road and bridge maintenance, and fire protection services. The Township contracted with the Village of Vinton to provide fire services during 2003 and 2004.

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**

The Township did not have any investments during 2003 or 2004.

**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 money to pay for constructing, maintaining and repairing Township roads.

*Motor Vehicle License Fund* – This fund receives motor vehicle license monies for constructing, maintaining and repairing Township roads.

*Fire District Fund* – This fund receives tax money to pay for fire protection services provided to the Township.

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

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

**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 measures. 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 re-appropriated in the subsequent year.

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.

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

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:

|                                | 2004                 | 2003                |
|--------------------------------|----------------------|---------------------|
| Demand deposits                | <u>16,399</u>        | <u>8,640</u>        |
| Total deposits and investments | <u><u>16,399</u></u> | <u><u>8,640</u></u> |

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation.

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

| 2004 Budgeted vs. Actual Receipts |                      |                    |          |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance |
| General                           | \$30,988             | \$36,742           | \$5,754  |
| Special Revenue                   | 92,865               | 113,698            | 20,833   |
| Total                             | \$123,853            | \$150,440          | \$26,587 |

| 2004 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |             |
|---|----------------------------|---------------------------|-------------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance    |
| General   | \$0                        | \$29,605                  | (\$29,605)  |
| Special Revenue                                       | 0                          | 113,076                   | (113,076)   |
| Total   | \$0                        | \$142,681                 | (\$142,681) |

| 2003 Budgeted vs. Actual Receipts |                      |                    |           |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance  |
| General                           | \$47,664             | \$40,998           | (\$6,666) |
| Special Revenue                   | 80,300               | 99,369             | 19,069    |
| Total                             | \$127,964            | \$140,367          | \$12,403  |

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |             |
|---|----------------------------|---------------------------|-------------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance    |
| General   | \$0                        | \$41,673                  | (\$41,673)  |
| Special Revenue                                       | 0                          | 85,490                    | (85,490)    |
| Total   | \$0                        | \$127,163                 | (\$127,163) |

The Township had a negative fund balance in the General Fund of \$11,342 and \$18,479 at December 31, 2004 and December 31, 2003, respectively. These conditions are contrary to Ohio Revised Code Section 5705.10. Budgetary expenditures exceeded appropriation authority for all funds in 2003 and 2004, contrary to Ohio Revised Code Section 5705.41(B) due to the Township not filing appropriation measures with the County Budget Commission. The Township's appropriations exceeded the estimate of resources (estimated revenues plus unencumbered fund balances) for the General fund by \$5,482 and \$11,869 for 2004 and 2003, respectively, which is contrary to Ohio Revised Code Section 5705.39. Actual receipts exceeded estimated revenues in 2004 for the General, Motor Vehicle License, and Fire Tax Levy funds. Actual receipts exceeded estimated revenues in 2003 for the General, Motor Vehicle License, and Gasoline Tax Funds. An amended certificate of estimated resources should have been acquired to allow the excess revenues to be appropriated. This is contrary to Ohio Revised Code Section 5705.36.

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

**4. PROPERTY TAX**

Real property taxes become a lien on the 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.

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:

|         | Total    | Interest Rate |
|---------|----------|---------------|
| Ditcher | \$12,119 | 5.25%         |
| Total   | \$12,119 |               |

In July, 2004, the Township purchased a ditcher from Southeastern Equipment Company, Inc. The amount financed was \$15,040 for 30 months at 5.25%. Monthly payments of \$536.60 are due on the 16<sup>th</sup> of each month.

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

|                          |      | Ditcher  |
|--------------------------|------|----------|
| Year ending December 31: | 2005 | \$6,439  |
|                          | 2006 | 6,348    |
| Total                    |      | \$12,787 |

**6. RETIREMENT SYSTEMS**

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 2004 and 2003, members of PERS 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 contributions required through December 31, 2004.

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

**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 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 judgments, 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 \$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.

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> |
| <br>                     |                     |                     |
| <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>  |

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

**8. FISCAL DIFFICULTIES**

At December 31, 2004 the General Fund had a deficit balance of \$11,342. Management plans to attempt to reduce unnecessary disbursements of the Township, apply for grants as they become available, and has enacted a \$5.00 motor vehicle license fee in an attempt to reduce or eliminate the deficit balances.

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Ohio Society of Certified Public Accountants

**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  
Morgan Township  
Gallia County, Ohio  
4240 Morgan Lane  
Vinton, Ohio 45686

We were engaged to audit the financial statements of Morgan Township, Gallia County, Ohio (the Township), as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated November 4, 2005, 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, and wherein we disclaimed an opinion for a lack of supporting financial records.

**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 procedures. However, our procedures were not designed to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2004-006 through 2004-007.

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 of risk that misstatements in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weakness. However, of the reportable conditions described above, we consider items 2004-006 and 2004-007 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2004-001 through 2004-005.

We also noted certain matters that we have reported to management of the Township in a separate letter dated November 4, 2005.

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 dark ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

November 4, 2005

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

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

**FINDING NUMBER 2004-001**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.10** states that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. Money that is paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover expenses from another fund.

The General Fund had a deficit fund balance of \$11,342 and \$18,479 at December 31, 2004 and 2003, respectively.

**FINDING NUMBER 2004-002**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.36** allows all subdivisions to request increased and reduced amended certificates of estimated resources 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. A reduced amended certificate must be obtained if the amount of the deficiency will reduce available resources below the current level of appropriation.

Actual receipts exceeded estimated revenues in 2004 for the General, Motor Vehicle License and Fire Tax Levy Funds. Actual receipts exceeded estimated revenues in 2003 for the General, Motor Vehicle License and Gasoline Tax Funds.

**FINDING NUMBER 2004-003**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.39** states that the total appropriation from each fund shall not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official certificate.

The Township had appropriations which exceeded the estimate of resources (estimated revenues plus unencumbered fund balances) for all funds for 2004 and 2003.

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

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| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b> |
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**FINDING NUMBER 2004-004**

**Noncompliance Citation**

**Ohio Rev. Code Section 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the Township Clerk. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Township Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 (which has increased to \$3,000 on April 7, 2003), the Township Clerk may authorize payment through a Then and Now Certificate without affirmation of the Township Trustees, if such expenditure is otherwise valid.

The Township did not use the encumbrance method of accounting, (i.e., the Township Clerk did not certify the availability of funds as required by Ohio Law). This has resulted in deficit spending.

We recommend the Township not expend money without obtaining the above stated certificate.

**FINDING NUMBER 2004-005**

**Noncompliance Citation**

**Ohio Revised Code Section 5705.38** states 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 April 1<sup>st</sup>.

**Ohio Rev. Code Section 5705.41(B)** states that no subdivision is to expend money unless it has been appropriated.

There was no appropriation measure approved for both 2004 and 2003. As a result, all expenditures made during 2004 and 2003 were made without appropriations, and were, therefore, in violation of this code section.

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

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| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b> |
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**FINDING NUMBER 2004-006**

**Material Weakness**

The Clerk did not maintain appropriate accounting records needed for the management of the Township. The Clerk did not prepare monthly bank reconciliations to reconcile the bank statements to the cashbook. Not performing these monthly reconciliations resulted in errors that went undetected by the Clerk. The Clerk maintained a cash book and payroll ledger, but no appropriations ledgers were prepared for 2004 or 2003. Since the proper ledgers were not maintained, the Clerk did not prepare monthly financial statements to present to the Board.

The appropriations ledger should contain actual expenditures with a running total to be compared to the appropriations for each line item appropriated throughout the year. A running total should be maintained throughout the year.

We recommend the Clerk prepare monthly reconciliations in a timely manner. We further recommend the Clerk maintain an appropriations ledger to aid the Clerk in preparation of the annual report and monthly financial statements.

Ohio Administrative Code Section 117-2-02 describes records governments should maintain as part of an effective system of accounting and control. Management should review these requirements.

**FINDING NUMBER 2004-007**

**Material Weakness**

The Board of Trustees should receive monthly financial reports from the Clerk, and bank reconciliations should be performed monthly and reviewed by the Trustees.

The Trustees are not receiving monthly financial reports, and monthly bank reconciliations are not being performed and reviewed.

We recommend that the Clerk prepare monthly bank reconciliations and provide the Board with a copy of these for at least a signature approval. Also we recommend the Clerk provide the Board with a monthly financial report which includes month and year-to-date receipts and disbursements, prior year-to-date receipts and disbursements and the budgetary information. The Board should carefully review this information and make appropriate inquiries to help determine the continued integrity of financial information. This information also provides important data necessary to manage the Township.

**MORGAN TOWNSHIP  
GALLIA COUNTY**

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

| Finding Number | Finding Summary  | Fully Corrected? | Not Corrected, Partially Corrected;<br>Significantly Different Corrective Action<br>Taken; or Finding No Longer Valid; <i>Explain:</i> |
|----------------|--|------------------|--|
| 2002-001       | Ohio Rev. Code Section 5705.10 - Negative fund balances                        | No               | Not Corrected. Refer to Finding Number 2004-001  |
| 2002-002       | Ohio Rev. Code Section 5705.36 - Estimated receipts were unrealistic           | No               | Not Corrected. Refer to Finding Number 2004-002  |
| 2002-003       | Ohio Rev. Code Section 5705.41(B) - Disbursement exceeded appropriations       | No               | Not Corrected. Refer to Finding Number 2004-005  |
| 2002-004       | Ohio Rev. Code Section 5705.41(D) - Disbursements were not properly encumbered | No               | Not Corrected. Refer to Finding Number 2004-004  |
| 2002-005       | The Township lacked adequate accounting records.                               | No               | Not Corrected. Refer to Finding Number 2004-006  |





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**MORGAN TOWNSHIP**

**GALLIA 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  
FEBRUARY 9, 2006**