



**Auditor of State
Betty Montgomery**

MANCHESTER TOWNSHIP PERFORMANCE AUDIT

NOVEMBER 20, 2003



**Auditor of State
Betty Montgomery**

To the Officials and Citizens of Manchester Township:

In September of 2002, Manchester Township was placed in fiscal emergency because of a projected deficit beginning in the fiscal year ending December 31, 2002. Following the declaration of fiscal emergency, the Auditor of State initiated a performance audit of the Township in November of 2002.

This performance audit examines General Fund expenditures and makes recommendations that, if implemented, could lead to the eventual elimination of the Township's General Fund deficit. In addition, the performance audit examines expenditure reduction measures taken by the Township during the audit. While the recommendations contained within the performance audit are resources intended to reduce the Township's operating deficit, local officials are encouraged to continue to assess overall operations and develop other recommendations independent of the performance audit.

This report has been provided to, and discussed with, the Manchester Township officials. The Township has been encouraged to use the results of the performance audit as a resource in improving its overall operations, service delivery, and financial condition.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit can be accessed online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
AUDITOR OF STATE

November 20, 2003

Background

The Auditor of State's Office (AOS) has the statutory authority to initiate and conduct performance audits on governmental entities that have been placed in fiscal emergency. These performance audits are completed at no cost to the entity and are designed to assist management in making decisions that could eliminate the conditions which brought about the fiscal emergency declaration. In addition, performance audits provide an independent assessment of the entity's financial situation, and include the development of a framework for a financial recovery plan. The recommendations developed for this performance audit provide a useful resource to Manchester Township in developing a financial recovery plan.

This document presents the results of the performance audit of Manchester Township (the Township). The main objective of the performance audit was to create a detailed five-year financial forecast which is presented in **Table 1**, and a financial recovery plan, presented in **Table 9**. A financial forecast will be a useful tool to Township administrators in their attempt to remove the Township from its fiscal emergency designation. In developing the General Fund financial forecast, a thorough analysis of each of the major revenue and expenditure line-items was conducted in an effort to develop detailed assumptions. The forecast projects the Township's financial outlook for the General Fund through 2007, assuming no major operational changes. To allow for a perspective of the Township's past financial situation, historical financial data for 2000 through 2002 was included in the forecast.

As provided by Ohio Revised Code (ORC) §118.04(A), upon request, AOS is required to complete a fiscal emergency analysis of a township or municipal corporation. The purpose of the analysis is to determine if the financial conditions of a township justify a declaration of fiscal emergency. AOS completed a review of the Township's fund account status and issued a Fiscal Emergency Analysis on September 20, 2002. The report concluded that fiscal emergency conditions existed under ORC §118.03(A)(5) and ORC §118.03(A)(6) as of December 31, 2001 and August 31, 2002.

The Township was placed in fiscal emergency pursuant to ORC §118.03(A)(5) which outlines the following condition:

“The aggregate of deficit amounts of all deficit funds at the end of an entity's preceding fiscal year, less the total of any year-end balance in the General Fund and in any Special [Revenue] Fund that may be transferred as provided in ORC §5705.14 to meet such deficit, exceeds one-sixth of the total of the total General Fund budget for that year and the receipts to those deficit funds during that year other than from transfers from the General Fund.”

A fiscal emergency condition also existed under ORC §118.03(A)(6) which states that:

“At the end of the preceding fiscal year, moneys and marketable investments in, or held for the unsegregated treasury of a township, minus outstanding checks and warrants, were less in amount than the aggregate of the positive balances of the General Fund and those Special [Revenue] Funds, the purposes of which the unsegregated treasury is held to meet, and such deficiency exceeded one-sixth of the total amount received into the unsegregated treasury during the preceding fiscal year.”

This report summarizes the tasks necessary to restore financial stability to the Township by 2007 and address the fiscal emergency designation. In order to eliminate the fiscal emergency designation, the Township must eliminate the two conditions identified above that caused the present fiscal emergency declaration.

Township Description

Manchester Township is located in Adams County on the southern border of Ohio. The Township consists of a 1.2 square mile area and, as reported in the 2000 U.S. Census, has a population of 2,140. The Township encompasses the Village of Manchester (the Village) which has a population of 2,042. As a result, 98 individuals reside inside the Township but outside of the Village. Of the Township’s total land area, approximately 27 percent is used as farmland, while 5 percent is developed.

The Township incorporated in 1850 and is governed by a publicly-elected three member Board of Trustees (trustees) and a clerk/treasurer (clerk). The compensation of the trustees is outlined in ORC §505.24 and is based on the Township’s total budget. In addition to governing the Township, the trustees also complete minor road repairs and maintenance within the Township cemetery. The Township can legally pay a portion of the trustee’s salaries out of a Special Revenue Fund for work performed in accordance with the specific fund’s purpose. As a result, 20 percent of the trustee’s salaries are paid out of the Cemetery Fund for maintenance work completed on the cemetery. Starting in 2003, the Township passed a resolution that enabled it to pay an additional 20 percent of the trustee’s salaries out of the Gas Excise (Tax) Fund for road repairs and maintenance work completed. Consequently, 60 percent of the trustee’s salaries will be paid out of the General Fund in 2003. The compensation of the clerk is outlined in ORC §507.09 and is required to be paid out of the General Fund.

One of the Township’s main objectives is to maintain and operate the Township cemetery. For 2003, the Township has projected revenues of approximately \$45,000 in the Cemetery Fund. The cemetery sexton, who is responsible for opening and closing graves as well as overseeing the cemetery, is the Township’s only full-time employee. The Township hires several part-time employees, primarily for maintaining and landscaping the cemetery.

The Township's other main objective is the maintenance and repair of the Township roads. All major road repairs are contracted to private entities and are paid out of the Gas Tax Fund or the Motor Vehicle License (MVL) Fund. The Township also contracts to receive fire protection services from the Village.

Financial Forecast

The Township uses fund accounting to segregate cash which is restricted in its use. The following are the fund classifications used by the Township as well as a brief description of each fund's intended purpose.

- **General Fund:** This is the general operating fund used to account for all financial resources except those required to be accounted for in other funds. Receipts in the General Fund include local taxes, intergovernmental revenues, and interest earned on investments. Trustee and clerk salaries, as well as Township utility expenditures, are paid out of the General Fund.
- **Special Revenue Fund:** The Special Revenue Fund accounts for revenues received from specific sources (other than trusts or capital projects) that are restricted for specific purposes. Manchester Township maintains the following special revenue funds: Cemetery Fund, Motor Vehicle License Fund, Gas Tax Fund, and the Federal Emergency Management Agency (FEMA) Fund. The following is a brief description of the Township's Special Revenue Funds.
 - **Cemetery Fund:** This fund receives revenues from the collection of general property and personal tangible property taxes, in addition to tax rollback revenues provided by the State. In addition, fees from the sale of cemetery lots and foundations are recorded in this fund. Revenues in this fund are restricted for the purpose of maintaining, grooming, and operating the Township cemetery.
 - **Motor Vehicle License Fund:** This fund receives State tax revenues from the sale of motor vehicle licenses. Revenues recorded in this fund are restricted for the equipment, labor, and materials expenditures used in the construction, reconstruction, maintenance, and repair of Township roads.
 - **Gas Tax Fund:** This fund receives State tax revenues from the sale of gasoline. Revenues recorded in this fund are restricted for the equipment, labor, and materials expenditures used in the construction, reconstruction, maintenance, and repair of Township roads.
 - **FEMA Fund:** Revenues recorded in this fund are provided by the Federal government and are restricted for the recovery and mitigation expenditures that result from disasters that occur within the Township.

The financial forecast presented in **Table 1** represents AOS's projections of the Township's present and future financial condition in the absence of significant increases in revenues or reductions in expenditures. The projections, which are for the General Fund, are accompanied by three years of comparable historical results and detailed assumptions. Assumptions were developed based on historical data provided by the Township, information obtained from the Adams County Auditor, and through interviews conducted with Township administrators. The financial information in **Table 1** represents actual and forecasted financial information for the General Fund of Manchester Township.

Table 1: General Fund Forecast 2000 through 2007

	Actual 2000	Actual 2001	Actual 2002	Forecasted 2003	Forecasted 2004	Forecasted 2005	Forecasted 2006	Forecasted 2007
Cash Receipts								
Local Taxes	\$14,970	\$14,048	\$11,184	\$11,296	\$11,409	\$11,523	\$11,638	\$11,754
Intergovernmental Receipts	8,128	8,748	5,623	5,577	5,696	5,819	5,946	6,076
Earnings on Investments	209	255	533	332	353	363	374	385
Other Revenues	138	4,362	1,115	0	0	0	0	0
Total Operating Revenues	\$23,445	\$27,413	\$18,455	\$17,205	\$17,458	\$17,705	\$17,958	\$18,215
Cash Disbursements								
General Government	48,256	31,947	31,182	30,417	31,036	31,861	32,616	33,395
Public Safety	1,158	1,295	887	1,295	1,295	1,295	1,295	1,295
Debt Service	9,713	0	0	0	0	0	0	0
Total Cash Disbursements	\$59,127	\$33,242	\$32,069	\$31,712	\$32,331	\$33,156	\$33,911	\$34,690
Total Cash Receipts over/ (under) Cash Disbursements	(\$35,682)	(\$5,829)	(\$13,614)	(\$14,507)	(\$14,873)	(\$15,451)	(\$15,953)	(\$16,475)
Other financing sources (uses)	244	0	30	0	0	0	0	0
Net Result of Operations	(\$35,438)	(\$5,829)	(\$13,584)	(\$14,507)	(\$14,873)	(\$15,451)	(\$15,953)	(\$16,475)
Beginning Cash Balance	(\$35,883)	(\$71,321)	(\$77,150)	(\$90,734)	(\$105,241)	(\$120,114)	(\$135,565)	(\$151,518)
Year End Cash Balance	(\$71,321)	(\$77,150)	(\$90,734)	(\$105,241)	(\$120,114)	(\$135,565)	(\$151,518)	(\$167,993)

Source: Township financial statements, Township vouchers, the Manchester Township December 31, 1999-2000 regular financial audit, and the preliminary Manchester Township December 31, 2001-2002 regular financial audit

General Assumptions

Summarized in the following pages are the general assumptions used to create the financial forecast presented in **Table 1**.

Revenues

Local Taxes

The following revenues are included in the local taxes line item.

- Property taxes are levied and assessed on a calendar year basis against real and public utility property located in the Township. Assessed values for real property are established by the State at 35 percent of the appraised market value. All real property is required to be revalued every six years and updated mid-way through the six year period.

A property revaluation for 2002 tax collections resulted in a significant decrease in tax revenue collections. For the forecast period, general property taxes have been forecast to increase at an annual rate of one percent based on historical increases.

- Tangible personal property consists of property used in businesses located in the Township and includes machinery and equipment; furniture and fixtures; motor vehicles; inventories; and supplies. For 2003 through 2007, a conservative annual increase rate of one percent has been projected for tangible personal property tax revenues.

Intergovernmental Receipts

The following revenues are included in the intergovernmental receipts line item.

- Estate taxes are determined pursuant to ORC §5731.48, which provides a township the use of 80 percent of all taxes assessed on estates that originate within the township. Estate taxes are provided by the State and are recorded as intergovernmental receipts. In 2000, the Township received \$2,982 from estate taxes. Due to the unpredictability of this line item, no estate tax revenues have been projected for the forecast period.
- Local government distributions consist of monthly distributions of sales tax and financial institution tax from the Adams County auditor. These distributions are provided by the State to local governments and are based on a statutory formula outlined in ORC §5747.501. Due to State budget constraints, local government distributions declined approximately 51 percent in 2002. For the purpose of this forecast, local government distributions have been forecasted to remain constant at 2002 levels due to uncertainty over future State budget levels.
- The property tax rollback line item represents payments made by the State as a result of homestead exemptions and property tax rollbacks provided to individuals paying property tax within the Township. Property tax rollback revenues have been forecasted to increase at an annual rate of three percent.

Earnings on Investments

Earnings on investments consist primarily of interest income received from deposits and investments. This line item has been projected to increase at an annual inflationary rate of three percent.

Other Revenues

In 2000, the Township generated \$138 in other revenues from vending sales. In 2001, the Township received a \$2,313 refund from the Bureau of Workers' Compensation (BWC) as well

as \$2,000 for the sale of a vehicle. For 2003 through 2007, no other revenues have been projected.

Cash Disbursements

General Government

The following cash disbursements are included in the general government line item.

- **Trustees Salaries:** Maximum trustee compensation is outlined in ORC §505.24 and is based on the size of the Township's total budget. In 2002, the Township's budget (\$110,836) was more than \$100,000 but not more than \$250,000. As a result, the maximum trustee salary was \$31.14 per day for no more than 200 days. For 2003 through 2007, an annual increase of three percent has been projected based on increases outlined in the ORC. For the purpose of this forecast, 60 percent of the trustee's salaries are paid out of the General Fund.
- **Clerk Salaries:** Township clerk salary requirements are outlined in ORC §507.09 and are based on the size of the Township's total budget. Township's having budgets of more than \$100,000 but not more than \$250,000 are required to pay the clerk \$8,414 in 2002. For 2003 through 2007, an annual increase of three percent has been projected based on increases contained in ORC §507.09.
- **Employee Benefits:** Expenditures for employee benefits represent the Township's share of the Public Employees Retirement System (PERS) contributions as well as Medicaid and tax payments. PERS provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the ORC. For 2003 through 2007, employee benefits are projected based on the historical ratio of 35.5 percent of General Fund salaries.
- **Medical/Hospitalization:** Starting in 2001, the Township eliminated all employee health care benefits in an effort to reduce General Fund expenditures. Therefore, no medical/hospitalization expenditures have been projected for the forecast period.
- **Life Insurance:** Starting in 2001, the Township eliminated all employee life insurance benefits in an effort to reduce General Fund expenditures. However, life insurance benefits were reinstated in 2002. During 2002, the Township paid \$496 for life insurance benefits for Township administrators. For 2003 through 2007, life insurance benefits have been projected to remain constant at 2003 levels.

- **Workers' Compensation:** Due to the volatility of workers' compensation expenditures for 2000 through 2002, future expenditures have been forecast to remain constant at \$705 per year based on the average historical payments made by the Township.
- **Auditor's Fees:** Auditor's fees represent payments made to the State and county auditors. In 2002, the Township incurred a significant amount of auditor's fees. Due to the financial state of the Township, it will repay these fees at a rate of \$400 per month. Auditor's fees for 2003 through 2007 are projected to remain constant at \$2,271 based on the average historical expenditures for this line item.
- **Postage:** Postage expenditures have been forecasted to remain constant at \$35 for 2003 through 2007.
- **Advertisements:** The Township is required to display year-end financial statements in the local newspaper, in addition to any job vacancies. Advertising expenditures are projected to remain constant at \$260 for the forecasted period based on the average historical expenditures of this line item.
- **Office Supplies:** Beginning in 2000, the Township decreased expenditures for office supplies in an effort to decrease overall General Fund expenditures. Future expenditures for office supplies are projected to increase at an annual inflationary rate of three percent.
- **Operating Supplies:** Starting in 2001, the Township decreased expenditures for operating supplies in an effort decrease overall General Fund expenditures. For 2003 through 2007, no operating supply expenditures have been forecasted.
- **Small Tools/Minor Equipment:** Expenditures for small tools and minor equipment were eliminated in 2001 in an attempt to decrease total expenditures. As a result, no expenditures for small tools have been forecasted for 2003 through 2007.
- **Dues and Fees:** The dues and fees line item consists primarily of dues for the Ohio Township Association and Ohio Department of Job and Family Services fees. Dues and fees expenditures have been projected to remain constant at the 2002 level.
- **Improvement of Sights:** The improvement of sights line item represents payments made for the improvement of Township properties. In 2000, the Township had one improvement of sights expenditure for \$729. No further expenditures for this line item have been projected.
- **Property Services:** Property services represent expenditures related to the care and upkeep of the Township's property. In 2000, a large portion of the Township's property services expenditures consisted of payments for the monthly use of a landfill. In

addition, expenditures for the cleaning of the Township offices were included in this line item. Starting in 2001, the Township eliminated all landfill and cleaning expenditures in an effort to reduce costs. For 2003 through 2007, only payments made for the Township security system are forecasted in this line item.

- **Contracted Services:** Contracted services expenditures in 2001 represent payments made to a private excavating company. No excavating services or other contracted services were received in 2002. No contracted service expenditures have been projected for 2003 through 2007.
- **Utilities:** The utilities line item represents telephone, electricity and heating oil expenditures of the Township. Utilities expenditures have been forecasted to increase at an annual rate of 1.4 percent for the forecasted period.

Public Safety

Expenditures for public safety represent payments made to the Village of Manchester Fire Marshall and Village of Manchester Fire Department for fire protection services provided. Contracting for fire protection services lowers the insurance rates of the Township citizens. An annual fee of \$750 is paid to the Village Fire Department for protection services in addition to a \$45 monthly fee for fire marshal services.

Debt Service

The Township currently has no outstanding debt. Debt service expenditures in 2000 represent payments made on an acquisition note for the purchase of additional land for the Township, and a bank note to cover the cost of fencing the cemetery. These notes matured in 2000. The Township has no current plans to enter into any debt agreements. Therefore, no debt expenditures have been forecasted for 2003 through 2007.

Peer Comparison

The townships displayed in **Table 2** were selected for the purpose of performing a peer comparison with Manchester Township. Townships were selected based on population, however, only those townships that operate Cemetery Funds were considered to ensure a similar income statement structure. In order to compare the Township to the peers selected, revenue and expense information was gathered from the AOS Financial Audit of each township. **Table 2** displays General Fund revenues by source for the Township and its peers. Each expenditure line item is displayed as a percentage of total General Fund expenditures.

Table 2: General Fund Revenues by Source

Township	Manchester	Amanda	Beaver	Marshall	Milton	Muhlenberg	Paint	Pike	Peer Average
Population	2,140	1,913	1,450	1,008	2,431	905	2,823	1,738	1,753
Total Revenues	\$23,445	\$96,846	\$34,618	\$40,508	\$74,849	\$42,899	\$94,723	\$88,430	\$67,553
Local Taxes	63.9%	25.2%	11.3%	49.5%	41.4%	33.3%	18.7%	47.9%	32.5%
Charges for Services	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	23.7%	0.0%	3.4%
Intergovernmental	34.7%	71.3%	85.0%	44.3%	51.2%	56.4%	52.0%	45.9%	58.0%
Special Assessments	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	<0.1%
Licenses, Permits, and Fees	0.0%	1.9%	0.0%	0.0%	6.3%	2.3%	0.0%	0.0%	1.5%
Earnings on Investments	0.9%	0.5%	3.5%	5.9%	1.0%	7.8%	4.7%	6.1%	4.2%
Other Revenues	0.5%	1.0%	0.2%	0.3%	0.1%	0.2%	0.9%	0.1%	0.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Census Bureau and AOS financial audits

As displayed in **Table 2**, the Township has the third highest population of all the peer townships selected. The Township's 2000 population of 2,140 is 22 percent higher than the peer average; however, as displayed in the following table, a township's total population has little effect on the level of revenues that it generates. As illustrated in **Table 2**, the Township generates significantly less General Fund revenues than its peers, despite having a greater population than the peer average. In addition, **Table 2** displays the Township's reliance on local taxes as its main source of revenues. In 2000, 63.9 percent of the Township's revenues were generated by local taxes, significantly higher than the peer average of 32.5 percent. Finally, **Table 2** illustrates the Township's lack of revenues generated through intergovernmental sources in comparison with the peer townships.

Table 3 displays General Fund revenues by source for the Township and its peers. Each expenditure line item is displayed as a percentage of total General Fund expenditures.

Table 3: General Fund Expenditures by Source

Township	Manchester	Amanda	Beaver	Marshall	Milton	Muhlenberg	Paint	Pike	Peer Average
Population	2,140	1,913	1,450	1,008	2,431	905	2,823	1,738	1,753
Total Disbursements	\$59,127	\$89,801	\$43,024	\$51,839	\$68,501	\$36,024	\$103,049	\$84,608	\$68,121
General Government	81.6%	68.4%	56.3%	96.0%	88.2%	91.1%	57.8%	63.5%	74.5%
Public Safety	2.0%	3.5%	0.0%	0.0%	0.0%	0.0%	7.4%	0.0%	1.5%
Public Works	0.0%	0.0%	26.5%	0.0%	0.0%	0.0%	34.8%	30.1%	13.1%
Health	0.0%	10.5%	2.1%	4.0%	3.4%	7.1%	0.0%	6.4%	4.8%
Debt Service	16.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Capital Outlay	0.0%	17.6%	15.1%	0.0%	8.4%	1.8%	0.0%	0.0%	6.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: U.S. Census Bureau and AOS financial audits

As illustrated in **Table 3**, 81.6 percent of the Township's total expenditures were recorded as general government expenditures, a level slightly higher than the peer average of 74.5 percent. However, the Township had significant amount debt service costs in 2000 due to improvements made to the Township. If these costs are ignored, approximately 98 percent of the Township's total expenditures would have been classified as general government expenditures.

Table 2 and **Table 3** display how a majority of the Township’s General Fund revenues are used to pay general governmental expenditures. Despite the fact that the Township’s General Fund revenues are significantly lower than the peers, administrator salaries are comparable due to the fact that salaries are based on total budgeted amounts of all Township funds. The Township’s large Special Revenue Fund drives its administrator salaries to a level that exhausts General Fund revenues.

Findings / Commendations / Recommendations

F1 In 2001, Township administrators elected to forgo all health insurance benefits in an attempt to reduce Township expenditures. In 2000, health and hospitalization expenditures accounted for approximately 25 percent of all administrative costs. As a result, the Township had no insurance expenditures for 2001 and 2002. In 2003, however, the Township administrators approved appropriations that would cover the cost of life insurance for the trustees and the clerk, despite the Township's operating deficit.

C1 The Township was able reduce over \$11,000 annually in administrative expenditures through the elimination of health benefits for Township administrators. This yearly savings will continue indefinitely until the Township resolves its fiscal deficit situation.

R1 To further reduce expenditures, the Township should consider the option of eliminating life insurance expenditures for its administrators. In 2003, the Township budgeted \$496 for life insurance premiums for the trustees and clerk. Life insurance benefits represent an expendable cost that should be eliminated in an attempt to absolve the Township of its fiscal emergency designation.

Financial Implication: The Township could save \$496 annually by eliminating life insurance expenditures for Township officials.

F2 The Township's current General Fund deficit is the result of its inability to generate a sufficient amount of revenues to cover administrative salaries. ORC §505.24 and ORC §507.09 require townships to base the compensation of the trustees and clerk on the total budgeted revenues of all funds. These ORC statutes were adopted to ensure that salaries paid to township officials are proportional to the township's total budgeted revenues. However, basing the salaries on total budgeted revenues could hamper the fiscal operations of those townships that have small general fund budgets. **Table 4** displays the Township's budget for all funds as a percentage of the total budget.

Table 4: 2002 Budgeted Revenues by Fund

Fund Type	2002 Fund Budgets	Percent of Total Budget
General Fund	\$24,725	22.3%
Cemetery Fund	\$34,611	31.2%
Gas Excise Fund	\$51,000	46.0%
MVL Fund	\$500	0.5%
Total Manchester Township Budget	\$110,836	100.0%

Source: 2002 Township vouchers

As displayed in **Table 4**, a majority of the Township's revenues (77.7 percent) were generated by funds other than the General Fund. However, the Township paid 80 percent of the trustees' salaries out of the General Fund. In 2002, administrative salary

expenditures exhausted approximately 82 percent of total General Fund revenues. Therefore, the Township’s current General Fund operating deficit has occurred primarily due to the lack of General Fund revenues available to pay administrator salaries. ORC §505.24 requires trustee compensation to be paid out of the General Fund of a township or from other funds of the township in such proportions as the kinds of services performed may require.

In September 2003, the Township Trustees were advised by their legal counsel to reallocate compensation payments as follows: 45 percent from the Cemetery Fund, 45 percent from the Gas Excise Fund and 10 percent from the General Fund. The change in expenditures was to take effect immediately and continue in the future for an indefinite period of time. **Table 5** shows the effect of the restructured compensation on the Township’s various funds.

Table 5: Effect of Compensation Plan on Funds

	2003	2004	2005	2006	2007
General Fund					
Beginning Cash Balance	(\$90,734)	(\$84,813)	(\$78,754)	(\$72,567)	(\$66,249)
Total Operating Revenues	17,205	17,458	17,705	17,958	24,405
Trustees Salaries	(1,924)	(1,982)	(2,042)	(2,103)	(2,166)
Trustee Benefits	(683)	(704)	(725)	(747)	(769)
Clerk Salaries	(7,396)	(7,616)	(7,844)	(8,080)	(8,320)
Clerk Benefits	(2,626)	(2,704)	(2,784)	(2,868)	(2,954)
Other Operating Expenditures	(8,677)	(8,713)	(8,751)	(8,790)	(8,830)
Total Operating Expenditures	(21,306)	(21,719)	(22,146)	(22,588)	(23,039)
Ending Cash Balance	(\$84,813)	(\$78,754)	(\$72,567)	(\$66,249)	(\$53,609)
Cemetery Fund					
Beginning Cash Balance	\$33,162	\$51,662	\$69,462	\$86,912	\$104,012
Gas Excise Fund					
Beginning Cash Balance	\$136,255	\$136,000	\$136,000	\$136,000	\$136,000

The impact of restructuring the funds from which compensation is paid would result in a savings of approximately \$24,000 annually for the General Fund. The Cemetery and Gas Excise Funds would absorb approximately \$12,000 each in expenditures for Trustees’ compensation.

C2 Paying a portion of the trustees’ salaries out to the Cemetery and Gas Excise funds enables the Township to reduce expenditures made out of the General Fund. In time, the effect of the reduced expenditures on the General Fund will help the Township become more financially stable.

R2 Based on the savings achieved within the General Fund and the reduction in its operating deficit, the Township would continue to have a negative ending fund balance through the

year 2018. In order to achieve a more stable financial footing, the Township Trustees may need to take additional measures beyond reallocating compensation expenditures among the Township's various funds, such as pursuing a property tax levy.

- F3 As stated in F2, the Township would continue to operate in a deficit until 2018 using only the compensation reallocation plan. An additional method of eliminating the current operating deficit would be to increase revenues. In attempting to increase revenues, the Township's most viable option would be a property tax levy. Based on 2002 property valuations, each mill assessed would generate approximately \$13,000 in revenues.

Table 6: Effect of Additional Revenue from Five Year 2.5 Mill Levy

	Forecasted 2003	Forecasted 2004	Forecasted 2005	Forecasted 2006	Forecasted 2007
Beginning Cash Balance	(\$90,734)	(\$105,241)	(\$87,614)	(\$70,240)	(\$53,040)
Total Operating Revenues	17,205	17,458	17,705	17,958	18,215
Scenario J: Revenue from 2.5 Mill Levy¹	0	32,500	32,825	33,153	36,435
Total Operating Expenditures	31,712	32,331	33,156	33,911	34,690
Net Operating Results	(\$14,507)	17,627	17,374	17,200	19,960
Projected Year End Cash Balance	(\$105,241)	(\$87,614)	(\$70,240)	(\$53,040)	(\$33,080)

Note: Only the inclusion of additional revenue from the 2.5 mill levy is reflected in Table 6. No further adjustments are reflected.

¹ For the purpose of this performance, it is assumed that collection of a five year, 2.5 mill levy could begin in 2004 if the levy were passed by voters in the November 2003 election.

Table 6 illustrates that the passage of a five year, 2.5 mill levy, without reallocating compensation to other funds, would reduce the projected General Fund deficit to approximately \$33,080 by 2007. Compared to the projected deficit of \$167,993 as presented in the five-year forecast (**Table 1**), passage of the five year, 2.5 mill levy in 2003 or early 2004 would reduce the General Fund deficit approximately \$134,913 by 2007. If combined with the reallocation of compensation described in **R2**, the levy would not be required beyond FY 2005. (See **Table 9**.)

- R3** The Township should consider the option of placing a 2.5 mill levy on the ballot to increase revenues and decrease operating deficits. After the expiration of the levy, the Township should consider a replacement levy of 2 mills which would provide sufficient operating revenue to compensate administrators at 100 percent and continue operations of Township functions.

Financial implication: If implemented immediately, the Township could generate an estimated \$32,500 of additional local revenues in 2004, \$32,825 in 2005, \$33,153 in 2006, and \$36,435 in 2007 if a 2.5 mill property tax levy was passed.

- F4 Although the Township implemented the practice of creating purchase orders in 2001, the purchase orders were not issued with authorized signatures. Producing purchase orders

with authorized signatures will decrease the risk of purchasing unauthorized items. Approval of all purchase orders by the clerk and trustees will ensure that Township expenditures are made for approved items.

R4 The Township should ensure that all purchase orders are approved by the clerk and two trustees. In addition, the Township should follow UAN procedures for the creation and use of purchase orders. Properly prepared purchase orders will decrease the risk of purchasing unauthorized items and ensure that resources are available for the intended purchases.

F5 The Township does not currently match invoices and purchase orders with vouchers. The monthly matching of these documents will ensure that no unauthorized purchases were made by Township employees. In addition, this practice will ensure that no falsified or unauthorized payments are made by the Township.

R5 The Township should match purchase orders, invoices, and vouchers. These documents should be matched on a monthly basis and any voucher not matched with a supporting purchase order and invoice should be investigated. In addition, all invoices should be checked for accuracy to ensure that all charges made to the Township have been calculated for the correct quantity and price.

F6 Pursuant to ORC §5705.39, the total appropriations from each fund cannot exceed the estimated revenues available for expenditures. **Table 7** displays the Township’s Certificate of Estimated Resources and Annual Appropriations Resolution amounts for 2000 through 2003.

Table 7: Resources and Appropriations by Fund

Year	Certificate of Estimated Resources	Annual Appropriations Resolution	Variance	Percent of Certificate	General Fund Revenues	Approved General Fund Appropriations	Variance	Percent of Certificate
2000	\$130,572	\$130,568	\$4	0.0%	\$23,316	\$37,325	(\$14,009)	160.0%
2001	100,051	N/A	N/A	N/A	27,510	N/A	0	N/A
2002	110,836	111,622	(786)	100.7%	21,100	31,174	(10,074)	147.7%
2003	128,510	133,405	(4,895)	103.8%	29,170	37,287	(8,117)	127.8%

Source: 2000 through 2003 Certificates of Estimated Resources; 2000 through 2003 Annual Appropriation Resolutions

As shown in **Table 7**, the Township approved total annual appropriations that exceeded certificated resources by 0.7 percent in 2002 and 3.8 percent in 2003. To a greater extent, the Township approved General Fund appropriations that have exceeded certificated General Fund revenues since 2000. As illustrated in the table, over-appropriations have decreased every year since 2000. In 2000, the Township approved 160 percent of

certificated General Fund revenues. Through significant reductions in expenditures, the Township was able to continually decrease General Fund appropriations such that, FY 2003 appropriations were budgeted at 127.8 percent of resources. The Township did not file an Annual Appropriations Resolution with the Adams County Auditor in FY 2000. **Table 8** displays the Township's actual expenditures in comparison to its appropriations.

Table 8: Actual Expenditures Compared to Appropriations

Year	Appropriated Expenditures	Actual Expenditures	Variance	Percentage of Appropriations
2000	\$37,325	\$59,127	(\$21,892)	158.4%
2001	N/A	33,788	(33,788)	N/A
2002	31,174	36,322	(5,148)	116.5%

Source: 2000 through 2003 Annual Appropriation Resolutions and Township vouchers

As displayed in **Table 8**, the Township incurred expenditures that greatly exceeded appropriations in 2000 and 2002. In 2000, the Township's expenditures were \$21,892 higher than the approved appropriations. Although the Township significantly reduced expenditures in 2002, annual appropriations were still exceeded by \$5,148. As stated before, the Township did not file an Annual Appropriations Resolution with the Adams County Auditor in 2001.

R6 ORC §5705.39 states that the total appropriations from each fund, taken together with all other outstanding appropriations, may not exceed the certificate estimates. The Township and the Adams County Auditor should be cognizant of this law and should not approve any appropriations that exceed certificated resources.

F7 **Table 9** demonstrates the effect of the revised assumption and recommendations in this report and includes the beginning fund balance for each year and the adjusted fund balance reflecting the effect of the recommendations. In addition, **Table 9** shows the potential affect of the 2.5 mill levy ballot issue on the ending General Fund balance. The revised forecast contains the same financial projections presented in **Table 1**, with additional lines to incorporate the financial savings and revenue enhancements associated with the performance audit recommendations.

R7 The Township trustees should analyze and use the proposed financial forecast outlined in **Table 9** to evaluate the revised assumption and recommendations presented within this performance audit and to determine the impact of the related cost savings on its financial condition. The Township should also consider implementing the recommendations in this performance audit to improve the Township's current and future financial situation.

Table 9: Financial Forecast with Adjustments

	Forecasted 2003	Forecasted 2004	Forecasted 2005	Forecasted 2006	Forecasted 2007
Cash Receipts					
Local Taxes	\$11,296	\$11,409	\$11,523	\$11,638	\$11,754
Intergovernmental Receipts	5,577	5,696	5,819	5,946	6,076
Earnings on Investments	332	353	363	374	385
Total Operating Revenues	\$17,205	\$17,458	\$17,705	\$17,958	\$18,215
Cash Disbursements					
General Government	30,417	31,036	31,861	32,616	33,395
Public Safety	1,295	1,295	1,295	1,295	1,295
Total Cash Disbursements	\$31,712	\$32,331	\$33,156	\$33,911	\$34,690
Total Cash Receipts over/ (under) Cash Disbursements	(\$14,507)	(\$14,873)	(\$15,451)	(\$15,953)	(\$16,475)
Beginning Cash Balance	(\$90,734)	(\$105,241)	(\$120,114)	(\$135,565)	(\$151,518)
Year End Cash Balance	(\$105,241)	(\$120,114)	(\$135,565)	(\$151,518)	(\$167,993)
R1. Eliminate life insurance expenditures	\$496	\$496	\$496	\$496	\$496
R2 Pay 90 percent of Trustees compensation from Cemetery and Gas Excise Funds	\$24,000	\$24,000	\$24,000	\$24,000	\$24,000
Revised Ending Fund Balance without Levy	(\$80,745)	(\$71,122)	(\$62,077)	(\$53,534)	(\$45,513)
R3. Place 2.5 mill levy on November 2003 ballot	\$0	\$32,500	\$32,825	\$33,153	\$36,435
Revised Ending Cash Balance with Levy	(\$80,745)	(\$38,622)	\$3,248	\$44,944	\$89,400

Conclusion

Manchester Township faces two significant challenges. First, it must take steps to eliminate the existing General Fund deficit. Second, it must either reduce expenditures or establish an ongoing revenue stream sufficient to support its operating costs. This report provides recommendations for addressing both.

To resolve its deficit in the short term, the Township should consider a combination of reallocation of costs, cost savings and revenue enhancements. With these steps, particularly the short-term revenue enhancements, the Township may be able to resolve its deficit by FY 2005. The reallocation of costs and cost savings will help the Township maintain a favorable fund balance in future years.

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