



**Auditor of State
Betty Montgomery**

REED TOWNSHIP
SENECA COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Reed Township
Seneca County
14557 E. County Road 36
Attica, Ohio 44807-9576

To the Board of Trustees:

We have audited the accompanying financial statements of Reed Township, Seneca County, (the Township) as of and for the years ended December 31, 2002 and 2001. 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 audits.

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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2002 and 2001, 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 June 19, 2003 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Reed Township
Seneca County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of the audit committee, management, the Board, 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 black ink that reads "Betty Montgomery". The signature is written in a cursive style with a large initial "B".

Betty Montgomery
Auditor of State

June 19, 2003

**REED TOWNSHIP
SENECA COUNTY**

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

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Local Taxes	\$18,823	\$34,788			\$53,611
Intergovernmental	38,414	71,867		\$28,958	139,239
Earnings on Investments	1,176	450			1,626
Total Cash Receipts	58,413	107,105		28,958	194,476
Cash Disbursements:					
Current:					
General Government	53,965				53,965
Public Safety	989				989
Public Works		108,206			108,206
Health	4,021				4,021
Debt Service:					
Redemption of Principal			\$825		825
Capital Outlay				37,308	37,308
Total Cash Disbursements	58,975	108,206	825	37,308	205,314
Total Cash Disbursements Over Cash Receipts	(562)	(1,101)	(825)	(8,350)	(10,838)
Other Financing Receipts and (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Notes		19,500			19,500
Sale of Fixed Assets		2,700			2,700
Transfers-In			825		825
Transfers-Out	(825)				(825)
Other Sources	1,323				1,323
Total Other Financing Receipts/(Disbursements)	498	22,200	825		23,523
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(64)	21,099		(8,350)	12,685
Fund Cash Balances, January 1	24,990	16,445		13,350	54,785
Fund Cash Balances, December 31	\$24,926	\$37,544		\$5,000	\$67,470

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

**REED TOWNSHIP
SENECA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Local Taxes	\$19,708	\$33,717			\$53,425
Intergovernmental	59,268	71,136		\$17,345	147,749
Earnings on Investments	2,670	432			3,102
Other Revenue		2,394			2,394
	<u>81,646</u>	<u>107,679</u>		<u>17,345</u>	<u>206,670</u>
Cash Disbursements:					
Current:					
General Government	56,663				56,663
Public Safety	577				577
Public Works		129,217			129,217
Health	4,320				4,320
Debt Service:					
Redemption of Principal			\$825		825
Capital Outlay	561	3,400		32,621	36,582
	<u>62,121</u>	<u>132,617</u>	<u>825</u>	<u>32,621</u>	<u>228,184</u>
Total Cash Receipts Over/ (Under) Cash Disbursements	<u>19,525</u>	<u>(24,938)</u>	<u>(825)</u>	<u>(15,276)</u>	<u>(21,514)</u>
Other Financing Receipts and (Disbursements):					
Sale of Fixed Assets	1,692				1,692
Transfers-In		21,575	825		22,400
Advances-In	13,000	13,000			26,000
Transfers-Out	(22,400)				(22,400)
Advances-Out	(13,000)	(13,000)			(26,000)
Other Sources	1,042				1,042
	<u>(19,666)</u>	<u>21,575</u>	<u>825</u>		<u>2,734</u>
Excess of Cash Disbursements and Other Financing Disbursements Over Cash Receipts and Other Financing Receipts	(141)	(3,363)		(15,276)	(18,780)
Fund Cash Balances, January 1	<u>25,131</u>	<u>19,808</u>		<u>28,626</u>	<u>73,565</u>
Fund Cash Balances, December 31	<u>\$24,990</u>	<u>\$16,445</u>		<u>\$13,350</u>	<u>\$54,785</u>

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

**REED TOWNSHIP
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Reed Township, Seneca 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 maintenance and cemetery maintenance.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

Certificates of deposit are valued at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash that is 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:

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining and repairing Township roads and bridges.

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

**REED TOWNSHIP
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. Debt Service Funds

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

General Note Retirement Fund – This fund receives transfers from the General Fund to pay the Ohio Public Works Commission loan.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project funds:

Issue II Fund - The Township received a grant from the State of Ohio for improvements to Township Road 81 in 2001 and Township Roads 6 and 124 in 2002.

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 object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2002 and 2001 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.

**REED TOWNSHIP
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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:

	2002	2001
Demand deposits	\$67,470	\$49,785
Certificates of deposit		5,000
Total deposits	\$67,470	\$54,785

Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$57,250	\$59,736	\$2,486
Special Revenue	125,355	129,305	3,950
Debt Service		825	825
Capital Projects	29,158	28,958	(200)
Total	\$211,763	\$218,824	\$7,061

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$78,182	\$59,800	\$18,382
Special Revenue	120,650	108,206	12,444
Debt Service		825	(825)
Capital Projects	13,550	37,308	(23,758)
Total	\$212,382	\$206,139	\$6,243

**REED TOWNSHIP
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$79,770	\$84,380	\$4,610
Special Revenue	140,794	129,254	(11,540)
Debt Service	825	825	
Capital Projects	17,550	17,345	(205)
Total	<u>\$238,939</u>	<u>\$231,804</u>	<u>(\$7,135)</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$78,278	\$84,521	(\$6,243)
Special Revenue	123,600	132,617	(9,017)
Debt Service		825	(825)
Capital Projects	45,800	32,621	13,179
Total	<u>\$247,678</u>	<u>\$250,584</u>	<u>(\$2,906)</u>

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund, Gasoline Tax Fund, Road and Bridge Fund, and Cemetery Fund for the year ended December 31, 2001; and for the Motor Vehicle License Fund, General Bond Retirement Fund, and Public works Project Fund for both the years ended December 31, 2001 and December 31, 2002. Also contrary to Ohio law, the fiscal officer's certification was not made prior to incurring the commitment for thirty percent of the items tested.

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.

**REED TOWNSHIP
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
General Obligation Notes	\$19,500	5%
OPWC Loan	4,950	
Total	\$24,450	

The general obligation notes were issued to finance the purchase of a new dump truck and plowing equipment to be used for Township road maintenance. The notes are collateralized solely by the Township's taxing authority.

The Ohio Public Works Commission (OPWC) loan was to fund the reconstruction of Township Road 122. This biannual interest-free loan was for eight years.

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

Year ending December 31:	OPWC Loan	General Obligation Notes
2003	\$825	\$4,889
2004	825	4,693
2005	825	4,493
2006	825	4,295
2007	825	4,098
2008-2012	825	
Total	\$4,950	\$22,468

6. RETIREMENT SYSTEMS

The Township's certified employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS 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 2002 and 2001, OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equal to 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2002.

**REED TOWNSHIP
SENECA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

7. RISK MANAGEMENT

Risk Pool Membership

The Township belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association with over 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to § 2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses conventional insurance coverages and reinsures these coverages 100 percent, rather than using a risk pool of member funds to pay individual and collective losses. Therefore, the individual members are only responsible for their self-retention (deductible) amounts which vary from member to member.



**Auditor of State
Betty Montgomery**

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

Reed Township
Seneca County
14557 E. County Road 36
Attica, Ohio 44807-9576

To the Board of Trustees:

We have audited the accompanying financial statements of Reed Township, Seneca County, (the Township) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated June 19, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated June 19, 2003.

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 our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving

the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated June 19, 2003.

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

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

Betty Montgomery
Auditor of State

June 19, 2003

**REED TOWNSHIP
SENECA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirement:

- a. Then and Now Certificate - 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 Board 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, if such expenditure is otherwise valid.
- b. If the amount involved is less than \$1,000 (\$3,000 after 4/7/03), the fiscal officer may authorize it to be paid without the affirmation of the Board, if such expenditure is otherwise valid.

Out of sixty transactions tested, 30 percent were not certified by the fiscal officer at the time the commitment was incurred nor were they certified using then and now certification. To improve controls over disbursements we recommend that all Township disbursements receive certification of the fiscal officer that the funds are or will be available.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states no subdivision shall make any expenditure of money unless it has been appropriated. Expenditures exceeded appropriations for the following funds:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Variance Amount</u>
2002			
Motor Vehicle License Fund	30,982	21,600	(9,382)
General Bond Retirement Fund	825		(825)
Public Works Project (Issue II) Fund	28,958		(28,958)

**FINDING NUMBER 2002-002
 (Continued)**

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Variance Amount</u>
2001			
General Fund	\$84,521	\$78,278	(\$6,243)
Motor Vehicle License Fund	25,275	21,700	(3,575)
Gasoline Tax Fund	55,248	53,000	(2,248)
Road and Bridge Fund	39,695	36,700	(2,995)
Cemetery Fund	3,400	1,200	(2,200)
General Bond Retirement Fund	825		(825)
Public Works Project (Issue II) Fund	17,345	17,000	(345)

This could result in overspending the fund cash balance. We recommend appropriation amendments be obtained prior to the overspending of the fund's current appropriations.



**Auditor of State
Betty Montgomery**

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REED TOWNSHIP

SENECA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 5, 2003**