
CANAAN TOWNSHIP
MORROW COUNTY

REGULAR AUDIT

YEARS ENDED DECEMBER 31, 2004 & 2003

Whited Seigneur Sams & Rabe, LLP

CERTIFIED PUBLIC ACCOUNTANTS

*** WSSR ***

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**Auditor of State
Betty Montgomery**

Board of Trustees
Canaan Township
Morrow County
2209 County Road 69
Edison, OH 43320-9742

We have reviewed the Independent Auditor's Report of the Canaan Township, Morrow County, prepared by Whited Seigneur Sams & Rahe, LLP, for the audit period January 1, 2003 to 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 Accountants' 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 Accountants' 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. The Canaan Township is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY
Auditor of State

July 6, 2005

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**CANAAN TOWNSHIP
MORROW COUNTY, OHIO**

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Whited Seigneur Sams & Rahe LLP

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June 20, 2005

Board of Trustees
Canaan Township
Morrow County
2209 County Road 69
Edison, OH 43320-9742

Report of Independent Auditor

We have audited the accompanying financial statements of Canaan Township, Morrow 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 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 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. Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, we presume they are material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2004 and 2003, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Canaan Township, Morrow County as of December 31, 2004 and 2003 and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2005, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal controls over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of audits performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audits.

Respectfully submitted,

WHITED SEIGNEUR SAMS & RAHE CPAs, LLP

**CANAAN TOWNSHIP
MORROW COUNTY, OHIO
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Special Revenue</u>	<u>Memorandum Only Total</u>
CASH RECEIPTS			
Local Taxes	\$ 22,569	\$ 9,102	\$ 31,671
Intergovernmental Receipts	97,912	77,685	175,597
Licenses, Permits and Fees	0	790	790
Interest	685	133	818
Other Revenue	<u>1,103</u>	<u>560</u>	<u>1,663</u>
TOTAL CASH RECEIPTS	122,269	88,270	210,539
CASH DISBURSEMENTS			
General Government	53,480	215	53,695
Public Safety	0	7,700	7,700
Public Works	211	75,507	75,718
Health	6,165	313	6,478
Capital Outlay	<u>29,499</u>	<u>0</u>	<u>29,499</u>
TOTAL CASH DISBURSEMENTS	<u>89,355</u>	<u>83,735</u>	<u>173,090</u>
TOTAL CASH RECEIPTS OVER/ (UNDER) CASH DISBURSEMENTS	32,914	4,535	37,449
Fund Cash Balances, January 1, 2004	<u>19,540</u>	<u>35,680</u>	<u>55,220</u>
Fund Cash Balances, December 31, 2004	<u>\$ 52,454</u>	<u>\$ 40,215</u>	<u>\$ 92,669</u>
Reserve for Encumbrances, December 31, 2004	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**CANAAN TOWNSHIP
MORROW COUNTY, OHIO
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>Memorandum Only</u>
CASH RECEIPTS	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
Local Taxes	\$ 20,155	\$ 8,641	\$ 28,796
Intergovernmental Receipts	25,362	64,864	90,226
Licenses, Permits and Fees	0	610	610
Interest	252	92	344
Other Revenue	<u>476</u>	<u>500</u>	<u>976</u>
TOTAL CASH RECEIPTS	46,245	74,707	120,952
CASH DISBURSEMENTS			
General Government	47,490	227	47,717
Public Safety	0	8,191	8,191
Public Works	436	55,911	56,347
Health	<u>5,400</u>	<u>600</u>	<u>6,000</u>
TOTAL CASH DISBURSEMENTS	<u>53,326</u>	<u>64,929</u>	<u>118,255</u>
TOTAL CASH RECEIPTS OVER/ (UNDER) CASH DISBURSEMENTS	(7,081)	9,778	2,697
Fund Cash Balances, January 1, 2003	<u>26,621</u>	<u>25,902</u>	<u>52,523</u>
Fund Cash Balances, December 31, 2003	<u>\$ 19,540</u>	<u>\$ 35,680</u>	<u>\$ 55,220</u>
Reserve for Encumbrances, December 31, 2003	<u>\$ 0</u>	<u>\$ 2,500</u>	<u>\$ 2,500</u>

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**CANAAN TOWNSHIP
MORROW COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- **Description of the Entity**

Canaan Township, Morrow County, Ohio (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 general governmental services including road and bridge maintenance and cemetery maintenance. The Township contracts with the Village of Mt. Gilead and the Iberia Volunteer Fire Co., Inc. to provide fire protection services.

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

- **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.

- **Cash and Investments**

The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

Investments are reported as assets. Accordingly, purchase of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

- **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:

- **General Fund** - The General Fund is the general operating fund. It is used to account for all financial resources except those required by law or contract to be restricted.
- **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 Fund:

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

**CANAAN TOWNSHIP
MORROW COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Budgetary Process**

The Ohio Revised Code requires that each fund be budgeted annually.

- **Appropriations** - Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function and 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. Unencumbered appropriations lapse at year-end.
- **Estimated Resources** - Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.
- **Encumbrances** - The Ohio Revised Code requires the Township to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over, and need not be reappropriated in the subsequent year.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

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

	2004	2003
Demand deposits	\$ 33,111	\$ 36,326
Total Deposits	33,111	36,326
 STAR Ohio	 59,558	 18,894
Total Investments	59,558	18,894
Total Deposits and Investments	\$ 92,669	\$ 55,220

- **Deposits**

Deposits are insured by the Federal Depository Insurance Corporation.

- **Investments**

Investments in STAR Ohio are not evidenced by securities that exist in physical or book entry form.

**CANAAN TOWNSHIP
MORROW COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

3. BUDGETARY ACTIVITY

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

2004 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
General	\$ 115,120	\$ 122,269	\$ 7,149
Special Revenue	<u>59,600</u>	<u>88,270</u>	<u>28,670</u>
Total	<u>\$ 174,720</u>	<u>\$ 210,539</u>	<u>\$ 35,819</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 134,657	\$ 89,355	\$ 45,302
Special Revenue	<u>92,769</u>	<u>83,735</u>	<u>11,534</u>
Total	<u>\$ 229,926</u>	<u>\$ 173,090</u>	<u>\$ 56,836</u>

2003 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
General	\$ 53,199	\$ 46,245	\$ (6,954)
Special Revenue	<u>59,658</u>	<u>74,707</u>	<u>15,049</u>
Total	<u>\$ 112,857</u>	<u>\$ 120,952</u>	<u>\$ 8,095</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 79,818	\$ 53,326	\$ 26,492
Special Revenue	<u>85,551</u>	<u>67,429</u>	<u>18,122</u>
Total	<u>\$ 165,369</u>	<u>\$ 120,755</u>	<u>\$ 44,614</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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 payments, 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.

**CANAAN TOWNSHIP
MORROW COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

4. PROPERTY TAX (Continued)

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

5. RETIREMENT SYSTEMS

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 post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2004.

6. 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 members' deductibles.

Casualty Insurance

OTARMA retains casualty risks up to \$250,000 per claim. 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 Insurance

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss. There is no aggregate for 2003 and future accident years. Beginning in 2003, OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective township.

**CANAAN TOWNSHIP
MORROW COUNTY, OHIO
NOTES TO THE FINANCIAL STATEMENTS**

6. RISK MANAGEMENT - (Continued)

• **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, 2003 and 2002 (the latest information available):

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$ 27,792,223	\$ 23,757,036
Liabilities	<u>(11,791,300)</u>	<u>(9,197,512)</u>
Retained Earnings	<u>\$ 16,000,923</u>	<u>\$ 14,559,524</u>
 <u>Property Coverage</u>		
Assets	\$ 6,791,060	\$ 6,596,996
Liabilities	<u>(750,956)</u>	<u>(1,204,326)</u>
Retained Earnings	<u>\$ 6,040,104</u>	<u>\$ 5,392,670</u>

Whited Seigneur Sams & Rahe, LLP

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June 20, 2005

Board of Trustees
Canaan Township
Morrow County
2209 County Road 69
Edison, OH 43320-9742

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

We have audited the accompanying financial statements of Canaan Township, Morrow County, Ohio (the Township) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated June 20, 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. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Township's internal control over financial reporting in order to determine 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 20, 2005.

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

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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We, however, noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated June 20, 2005.

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

Respectfully submitted,

WHITED SEIGNEUR SAMS & RAHE CPAs, LLP

**CANAAN TOWNSHIP
MORROW COUNTY, OHIO
SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

There were no findings during the current audit.

**CANAAN TOWNSHIP
MORROW COUNTY, OHIO
STATUS OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number 2002-40659-001

Ohio Rev. Code Section 5575.01 provides that competitive bidding is required for contracts for the maintenance or repair of roads, where the amount involved exceeds \$15,000. In each case, the board must advertise once, not later than two weeks prior to the letting of the contract, in a newspaper published in the county and of general circulation in the township. Award must be to the lowest responsible bidder.

In 2002 and 2001 the Township utilized Earthworm Construction for road projects. Payments made to Earthworm Construction totaled \$42,458 in 2002 and \$34,811 in 2001, respectively. Competitive bidding procedures were not followed. We recommend that the Trustees properly bid applicable contracts in order that the Township takes advantage of the lowest and best bid.

Status: This was not applicable in 2004 and 2003.



**Auditor of State
Betty Montgomery**

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CANAAN TOWNSHIP

MORROW 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 4, 2005**