



Dave Yost • Auditor of State



SALEM TOWNSHIP  
AUGLAIZE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Salem Township  
Auglaize County  
05683 State Route 197  
Wapakoneta, Ohio 45895

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Salem Township, Auglaize County, (the Township) as of and for the years ended December 31, 2015 and 2014.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 1B of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Township does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2015 and 2014, or changes in financial position thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Salem Township, Auglaize County, as of December 31, 2015 and 2014, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1B.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2016, 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 internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 14, 2016

**SALEM TOWNSHIP  
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$38,344	\$10,650		\$48,994
Licenses, Permits and Fees		3,300		3,300
Intergovernmental	25,399	97,000		122,399
Earnings on Investments	20	26		46
Miscellaneous	732	7,434		8,166
Total Cash Receipts	<u>64,495</u>	<u>118,410</u>		<u>182,905</u>
<b>Cash Disbursements:</b>				
<b>Current:</b>				
General Government	36,691	777		37,468
Public Safety	13,214	8,942		22,156
Public Works		59,642		59,642
Health	4,000	3,700		7,700
Capital Outlay		11,953		11,953
Total Cash Disbursements	<u>53,905</u>	<u>85,014</u>		<u>138,919</u>
Net Change in Fund Cash Balances	10,590	33,396		43,986
Fund Cash Balances, January 1	<u>165,021</u>	<u>282,686</u>	<u>\$1,066</u>	<u>448,773</u>
<b>Fund Cash Balances, December 31:</b>				
Non-spendable			1,066	1,066
Restricted		298,475		298,475
Committed		17,607		17,607
Assigned	175,611			175,611
Fund Cash Balances, December 31	<u>\$175,611</u>	<u>\$316,082</u>	<u>\$1,066</u>	<u>\$492,759</u>

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

**SALEM TOWNSHIP  
AUGLAIZE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>					
Property and Other Local Taxes	\$24,016	\$6,672			\$30,688
Licenses, Permits and Fees	600	2,800			3,400
Intergovernmental	12,984	95,626	\$31,000		139,610
Earnings on Investments	21	27			48
Miscellaneous	577	1,165			1,742
Total Cash Receipts	<u>38,198</u>	<u>106,290</u>	<u>31,000</u>		<u>175,488</u>
<b>Cash Disbursements:</b>					
<b>Current:</b>					
General Government	37,717	11,401			49,118
Public Safety	13,214				13,214
Public Works		124,279			124,279
Health	2,800	4,960			7,760
Capital Outlay		1,251	31,000		32,251
Total Cash Disbursements	<u>53,731</u>	<u>141,891</u>	<u>31,000</u>		<u>226,622</u>
Net Change in Fund Cash Balances	(15,533)	(35,601)			(51,134)
Fund Cash Balances, January 1	<u>180,554</u>	<u>318,287</u>		<u>\$1,066</u>	<u>499,907</u>
<b>Fund Cash Balances, December 31:</b>					
Non-spendable				1,066	1,066
Restricted		266,110			266,110
Committed		16,576			16,576
Assigned	165,021				165,021
Fund Cash Balances, December 31	<u>\$165,021</u>	<u>\$282,686</u>	<u>\$0</u>	<u>\$1,066</u>	<u>\$448,773</u>

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



**SALEM TOWNSHIP  
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Salem Township, Auglaize County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance and cemetery maintenance. The Township contracts with Spencerville Invincible Fire, Mendon Fire, Buckland Fire and Spencerville Ambulance to provide fire protection and emergency medical services.

The Township participates in a public entity risk pool. Note 6 to the financial statements provides additional information for this entity. Ohio Township Association Risk Management Authority (OTARMA) provides property and casualty coverage for its members. Member Townships pay annual contributions to fund OTARMA.

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

**B. Accounting Basis**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements 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 the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**C. Deposits**

All Township funds are held in an interest bearing checking account.

**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 accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

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

**SALEM TOWNSHIP  
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(Continued)**

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

**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.

**Cemetery Fund** - This fund receives grave and burial fees money for maintaining the cemeteries.

**3. Capital Project Fund**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Township had the following significant capital project fund:

**Issue I Fund** - The Township received a grant from the State of Ohio (Ohio Public Works Commission) for paving of roads.

**4. Permanent Fund**

These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Township had the following significant permanent fund:

**Cemetery Trust Bequest Fund** – This fund is used to account for resources restricted by a legally binding trust agreement. This trust fund is maintained in perpetuity and interest earnings are to be used for the upkeep of the cemetery.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash balances as of January 1. The County Budget Commission must 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 2015 and 2014 budgetary activity appears in Note 3.

**SALEM TOWNSHIP  
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(Continued)**

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

**F. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Non-spendable**

The Township classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. Property, Plant, and Equipment**

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**SALEM TOWNSHIP  
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(Continued)**

**2. EQUITY IN POOLED DEPOSITS**

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

	<b>2015</b>	<b>2014</b>
Demand deposits	\$492,759	\$448,773

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation. Deposits in excess of FDIC coverage are collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2015 and December 31, 2014 was as follows:

**2015 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$51,525	\$64,495	\$12,970
Special Revenue	87,590	118,410	30,820
Total	\$139,115	\$182,905	\$43,790

**2015 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$216,736	\$53,905	\$162,831
Special Revenue	370,086	85,014	285,072
Total	\$586,822	\$138,919	\$447,903

**2014 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$33,300	\$38,198	\$4,898
Special Revenue	79,316	106,290	26,974
Capital Projects	31,000	31,000	
Total	\$143,616	\$175,488	\$31,872

**2014 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$215,645	\$53,731	\$161,914
Special Revenue	395,703	141,891	253,812
Capital Projects	31,000	31,000	
Total	\$642,348	\$226,622	\$415,726

**SALEM TOWNSHIP  
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(Continued)**

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as intergovernmental receipts. Payments are due to the County by December 31. The second half payment is due the following June 20.

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

**5. RETIREMENT SYSTEM**

The Township's elected officials and 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.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries for 2014 and 2015. The Township contributed an amount equal to 14 percent of participants' gross salaries for 2014 and 2015. The Township has paid all contributions required through December 31, 2015.

**6. RISK MANAGEMENT**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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 coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**A. Casualty and Property Coverage**

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2015, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

**SALEM TOWNSHIP  
AUGLAIZE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014  
(Continued)**

**6. RISK MANAGEMENT (Continued)**

**B. Financial Position**

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2015 and 2014:

	<b>2015</b>	<b>2014</b>
Assets	\$37,313,311	\$35,970,263
Liabilities	8,418,518	8,912,432
Net Position	\$28,894,793	\$27,057,831

At December 31, 2015 and 2014, respectively, the liabilities above include approximately \$7.8 and \$8.2 million of estimated incurred claims payable. The assets above also include approximately \$7.7 and \$7.2 million of unpaid claims to be billed to approximately 989 members and 957 member governments in the future, as of December 31, 2015 and 2014, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Township's share of these unpaid claims collectible in future years is approximately \$2,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<b>Contributions to OTARMA</b>	
<b>2015</b>	<b>2014</b>
\$3,622	\$3,501

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Salem Township  
Auglaize County  
05683 State Route 197  
Wapakoneta, Ohio 45895

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of Salem Township, Auglaize County, (the Township) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated November 14, 2016 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2015-001 and 2015-002 to be material weaknesses.

Salem Township  
Auglaize County  
Independent Auditor's Report on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Required by *Government Auditing Standards*

***Compliance and Other Matters***

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Township's Response to Findings***

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 14, 2016



**SALEM TOWNSHIP  
AUGLAIZE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015 AND 2014**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2015-001**

**Material Weakness – Financial Statement Errors**

The Township prepared its annual financial statements in accordance with the accounting practices the Auditor of State prescribes or permits. The Township's 2014 and 2015 annual financial statements were adjusted for the following errors related to fund balance reporting:

- Governmental Accounting Standards Board (GASB) Statement 54, paragraph 16 (GASB Codification 1800.176) states, in part, that an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance. The Township failed to properly classify the amount by which appropriations exceeded estimated receipts for the subsequent year in the amount of \$175,611 on the 2015 financial statements and \$165,021 on the 2014 financial statements. These amounts should have been classified as assigned fund balance rather than unassigned fund balance in the General Fund.
- GASB Statement 54, paragraph 10 (GASB Codification 1800.170) states, in part, that amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority should be reported as committed fund balance. Auditor of State Bulletin 2011-001 identifies that because the funding for the Road and Bridge fund is derived from inside millage, the source of the constraint is considered to be imposed by the Trustees and not externally restricted by the voters and therefore, should be reported as committed fund balance. The Township failed to properly classify the 2015 and 2014 fund balances of \$17,607 and \$16,576, respectively, at year end in the Road and Bridge Fund. The amounts should have been classified as committed rather than restricted.

The Township's financial statements contained additional errors that resulted in adjustments to correctly report the financial activity during the period as follows:

**2015 General Fund**

- Intergovernmental revenue and corresponding fund balance was understated by \$5,422. This was caused by a local government receipt in the amount of \$5,596 being incorrectly posted to the road and bridge fund and an excess IRP receipt in the amount of \$174 being incorrectly posted to the general fund.

**2015 Special Revenue Funds**

- Intergovernmental revenue and corresponding fund balance was overstated by \$5,422 based on the error described above.

**2014 General Fund**

- Intergovernmental revenue and corresponding ending fund balance was overstated by \$190 due to an excess IRP receipt being posted incorrect to the general fund.

**2014 Special Revenue Funds**

- Intergovernmental revenue and corresponding ending fund balance was understated by \$190 based on the error described above.

**FINDING NUMBER 2015-001  
(Continued)**

Adjustments and reclassifications to correct the errors above are reflected in the accompanying financial statements. Additionally, the client has recorded the applicable fund balance adjustments in the UAN accounting system. Additionally, there was an insignificant revenue reclassification that was identified that was not adjusted or reflected in the accompanying financial statements (a \$1,500 sale of a fixed asset in the special revenue fund for 2015 was recorded to miscellaneous revenue rather than sale of fixed assets).

Failure to properly classify transactions and balances could lead to fund balance errors, misstated financial statements, and unreliable financial data.

To improve financial reporting and accountability, the Township should implement procedures to review the requirements of GASB Statement No. 54, Auditor of State Bulletin 2011-004, and the Ohio Township Handbook in order to properly classify revenue, expenditures, and report fund balances at year end.

**Officials' Response:** Fund balance adjustments were done and I have registered for the UAN Year End training to be held in December to better understand classifying and assigning fund balances.

**FINDING NUMBER 2015-002**

**Material Weakness – Permanent Fund Agreement**

The Township presented a Cemetery Bequest Fund as a Permanent Fund, as has been done in previous audit periods. However, the Township could not provide the original trust agreement to support that this fund was properly reported as a Permanent Fund. The Cemetery Bequest Fund represented 100% of the Permanent Fund, totaling a balance of \$1,066 at December 31, 2015 and 2014 with no related financial activity during 2015 or 2014.

Without the original trust agreement, it is not possible to determine whether the Cemetery Bequest Fund should be presented as a Permanent Fund or as some other fund type. In addition, the lack of a trust agreement may be an indication that these funds are spendable.

The Township should obtain a copy of the original trust that established this fund to identify the original principal and to determine the purpose of the trust. If necessary, the Township should consult legal counsel for advice if documentation cannot be located to support the existence of the trust agreement. Once the trust agreement is obtained, the Township should determine if the trust is properly classified based on the nature of the agreement.

**Officials' Response:** Trustee Vogel stated he will do a much more in depth search back thru the old minutes to try to find something in regards to the cemetery bequest money.



# Dave Yost • Auditor of State

**SALEM TOWNSHIP**

**AUGLAIZE 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  
DECEMBER 22, 2016**