



Dave Yost • Auditor of State

JEFFERSON TOWNSHIP
KNOX COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Jefferson Township
Knox County
19657 Chapel Road
Danville, Ohio 43014

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 the Jefferson Township, Knox County, Ohio (the Township) as of and for the years ended December 31, 2017 and 2016.

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 such 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 1 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, 2017 and 2016, and the respective 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 cash balances, receipts and disbursements by fund type, and related notes of the Jefferson Township, Knox County as of December 31, 2017 and 2016, 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 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2018, 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

October 23, 2018

Jefferson Township
Knox 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, 2017

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$23,398	\$30,484	\$0	\$53,882
Licenses, Permits and Fees	1,005	1,400	0	2,405
Intergovernmental	22,999	100,914	0	123,913
Earnings on Investments	15	0	91	106
Miscellaneous	7,081	673	0	7,754
<i>Total Cash Receipts</i>	<u>54,498</u>	<u>133,471</u>	<u>91</u>	<u>188,060</u>
Cash Disbursements				
Current:				
General Government	40,045	0	0	40,045
Public Works	3,950	142,305	0	146,255
Health	5,465	0	0	5,465
Capital Outlay	11,900	0	0	11,900
Debt Service:				
Principal Retirement	0	4,820	0	4,820
Interest and Fiscal Charges	0	634	0	634
<i>Total Cash Disbursements</i>	<u>61,360</u>	<u>147,759</u>	<u>0</u>	<u>209,119</u>
<i>Net Change in Fund Cash Balances</i>	(6,862)	(14,288)	91	(21,059)
<i>Fund Cash Balances, January 1</i>	<u>36,954</u>	<u>106,010</u>	<u>10,643</u>	<u>153,607</u>
Fund Cash Balances, December 31				
Nonspendable	0	0	10,500	10,500
Restricted	0	91,722	234	91,956
Assigned	30,092	0	0	30,092
<i>Fund Cash Balances, December 31</i>	<u>\$30,092</u>	<u>\$91,722</u>	<u>\$10,734</u>	<u>\$132,548</u>

See accompanying notes to the basic financial statements

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

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 the Jefferson Township, Knox County, Ohio (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 the Eastern Knox County Joint Fire District to provide fire services and emergency medical services.

The Township participates in a jointly governed organization and the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Notes 8 and 9 to the financial statements provides additional information for these entities.

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 Board 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. Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

D. Deposits and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

E. Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting (Continued)

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

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:

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.

3. Permanent Funds

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 Endowment Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemetery.

F. 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 as of January 1. The County Budget Commission must approve estimated resources.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

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.

A summary of 2017 budgetary activity appears in Note 3.

G. 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. Nonspendable

The Township classifies assets as *nonspendable* 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.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance (Continued)

5. Unassigned (Continued)

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.

H. Capital Assets

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

I. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. DEPOSITS

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

	<u>2017</u>
Demand deposits	<u>\$122,048</u>
Certificates of deposit	<u>10,500</u>
Total deposits	<u><u>\$132,548</u></u>

Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions have the option of participating in OPCS or collateralizing utilizing the specific pledge method. Financial institutions are transitioning to OPCS, but some have been granted extensions that may carry over year end and will be collateralizing with their own collateral pool until they join OPCS.

Deposits are insured by the Federal Deposit Insurance Corporation.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$42,179	\$54,498	\$12,319
Special Revenue	133,390	133,471	81
Permanent	50	91	41
Total	\$175,619	\$188,060	\$12,441

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$79,134	\$61,360	\$17,774
Special Revenue	239,119	147,759	91,360
Permanent	10,693	0	10,693
Total	\$328,946	\$209,119	\$119,827

4. PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted 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. If the property owner elects to pay semiannually, the first half is due 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. DEBT

On June 13, 2016 the Township entered into a Township Equipment Bond with an interest rate of 3.76% to acquire a dump truck. As of December 31, 2017, the debt remaining was \$15,180.

Amortization

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

Year Ending December 31:	General Obligation Bonds
2018	5,448
2019	5,448
2020	5,447
Total	\$16,343

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

6. DEFINED BENEFIT PENSION PLAN

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2017, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2017.

7. POSTEMPLOYMENT BENEFITS

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

8. 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.

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, 2017, 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.

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, 2017:

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017**

8. RISK MANAGEMENT (Continued)

	<u>2017</u>
Assets	\$ 40,010,732
Liabilities	\$8,675,465
Net Position	\$31,335,267

At December 31, 2017 the liabilities above include approximately \$8.0 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,016 member governments in the future, as of December 31, 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, 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.

<u>Contributions to OTARMA</u>
<u>2017</u> \$5,840

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.

9. JOINTLY GOVERNED ORGANIZATIONS

The Eastern Knox County Joint Fire District (the District) is a jointly governed organization pursuant to Ohio Revised Code section 505.371. The District was formed in 2001 and consists of Brown, Butler, Harrison, Howard, Jefferson and Union Townships and the Villages of Brinkhaven and Danville. The board consists of a trustee from each township and village and an at large member appointed by the District Board.

Jefferson Township
Knox 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, 2016

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$23,256	\$29,636	\$0	\$52,892
Licenses, Permits and Fees	660	1,100	0	1,760
Intergovernmental	30,103	109,549	0	139,652
Earnings on Investments	16	0	91	107
Miscellaneous	1,888	3,169	0	5,057
<i>Total Cash Receipts</i>	<u>55,923</u>	<u>143,454</u>	<u>91</u>	<u>199,468</u>
Cash Disbursements				
Current:				
General Government	42,252	1,000	0	43,252
Public Works	10,950	113,507	0	124,457
Health	5,114	674	0	5,788
Capital Outlay	0	23,045	0	23,045
<i>Total Cash Disbursements</i>	<u>58,316</u>	<u>138,226</u>	<u>0</u>	<u>196,542</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(2,393)</u>	<u>5,228</u>	<u>91</u>	<u>2,926</u>
Other Financing Receipts (Disbursements)				
Sale of Bonds	0	20,000	0	20,000
<i>Total Other Financing Receipts (Disbursements)</i>	<u>0</u>	<u>20,000</u>	<u>0</u>	<u>20,000</u>
<i>Net Change in Fund Cash Balances</i>	(2,393)	25,228	91	22,926
<i>Fund Cash Balances, January 1</i>	<u>39,347</u>	<u>80,782</u>	<u>10,552</u>	<u>130,681</u>
Fund Cash Balances, December 31				
Nonspendable	0	0	10,500	10,500
Restricted	0	106,010	143	106,153
Assigned	36,954	0	0	36,954
<i>Fund Cash Balances, December 31</i>	<u>\$36,954</u>	<u>\$106,010</u>	<u>\$10,643</u>	<u>\$153,607</u>

See accompanying notes to the basic financial statements

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

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 the Jefferson Township, Knox County, Ohio (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 the Eastern Knox County Joint Fire District to provide fire services and emergency medical services.

The Township participates in a jointly governed organization and the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Notes 8 and 9 to the financial statements provides additional information for these entities.

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 Board 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. Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

D. Deposits and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

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:

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

3. Permanent Funds

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 Endowment Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemetery.

F. 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 as of January 1. The County Budget Commission must approve estimated resources.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process (Continued)

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.

A summary of 2016 budgetary activity appears in Note 3.

G. 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. Nonspendable

The Township classifies assets as *nonspendable* 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.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance (Continued)

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.

H. Capital Assets

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

I. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. DEPOSITS

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

	<u>2016</u>
Demand deposits	<u>\$143,107</u>
Certificates of deposit	<u>10,500</u>
Total deposits	<u><u>\$153,607</u></u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$44,168	\$55,923	\$11,755
Special Revenue	152,520	163,454	10,934
Permanent	100	91	(9)
Total	\$196,788	\$219,468	\$22,680

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$83,515	\$58,316	\$25,199
Special Revenue	233,303	138,226	95,077
Permanent	10,652	0	10,652
Total	\$327,470	\$196,542	\$130,928

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted 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. If the property owner elects to pay semiannually, the first half is due 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. DEBT

As of December 31, 2016 the Township had outstanding debt of \$20,000 for a Truck Bond. On June 13, 2016 the Township entered into a Township Equipment Bond with an interest rate of 3.76% to acquire a dump truck.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

5. DEBT (Continued)

Amortization

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

Year Ending December 31:	General Obligation Bonds
2017	\$5,448
2018	5,448
2019	5,448
2020	5,447
Total	<u>\$21,791</u>

6. DEFINED BENEFIT PENSION PLAN

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2016, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

7. POSTEMPLOYMENT BENEFITS

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016.

8. 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.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

8. RISK MANAGEMENT (Continued)

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, 2016, 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.

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, 2016:

	<u>2016</u>
Assets	\$38,473,283
Liabilities	8,244,140
Net Position	\$30,229,143

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, 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.

<u>Contributions to OTARMA</u>
<u>2016</u> \$5,028

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

8. RISK MANAGEMENT (Continued)

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.

9. JOINTLY GOVERNED ORGANIZATIONS

The Eastern Knox County Joint Fire District (the District) is a jointly governed organization pursuant to Ohio Revised Code section 505.371. The District was formed in 2001 and consists of Brown, Butler, Harrison, Howard, Jefferson and Union Townships and the Villages of Brinkhaven and Danville. The board consists of a trustee from each township and village and an at large member appointed by the District Board.

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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

Jefferson Township
Knox County
19657 Chapel Road
Danville, Ohio 43014

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 the Jefferson Township, Knox County, Ohio (the Township) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2018, 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 2017-001 and 2017-002 to be material weaknesses.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-002.

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 subject the Township's responses to the auditing procedures applied in the audit of the financial statements 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 report is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

October 23, 2018

**JEFFERSON TOWNSHIP
KNOX COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016**

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

FINDING NUMBER 2017-001

Financial Statement Presentation – Material Weakness

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16.

Audit reclassifications and adjustments were posted to the Township's December 31, 2017 and 2016 financial statements.

Due to lack of Board Monitoring, the following posting errors were noted:

Fund	Posting Error	2016	2017
General Fund	To reclassify a portion of the homestead and rollback receipts from property tax receipts to intergovernmental receipts.	\$2,950	\$0
General Fund	To reclassify Estate tax receipts from miscellaneous to intergovernmental.	\$7,142	\$0
General Fund	To reclassify fund balance from unassigned to assigned due to subsequent year appropriations exceeding estimated receipts.	\$36,954	\$30,092
Gasoline Tax Fund	To adjust expenditures and ending balance for a check that was voided in the subsequent year and not reissued.	\$281	\$0
Road & Bridge Fund	To reclassify a portion of the homestead and rollback receipts from property tax receipts to intergovernmental receipts.	\$1,474	\$0

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-001 (Continued)

Financial Statement Presentation – Material Weakness (Continued)

Permissive Motor Vehicle License Tax Fund	To reclassify a portion of Permissive Motor Vehicle License Tax receipts from intergovernmental receipts to tax receipts.	\$6,395	\$7,086
Permissive Motor Vehicle License Tax Fund	To post debt proceeds and corresponding expenditures for the issuance of debt.	\$20,000	\$0
Permissive Motor Vehicle License Tax Fund	To reclassify debt principal from Capital Outlay expenditures.	\$0	\$4,820
Permissive Motor Vehicle License Tax Fund	To reclassify debt interest from Capital Outlay expenditures.	\$0	\$634
Cemetery Bequest Permanent Fund	To reclassify a portion of fund balance from nonspendable to restricted per GASB 54.	\$143	\$234

The Township's financial statements have been adjusted to accurately reflect the above reclassifications and adjustments. Adjustments have been made to the footnotes to include the above adjustments and reclassifications. In addition, the footnotes were updated to include the debt amortization schedule, post-employment benefit note, updates to the risk management note, and removal of the subsequent event note in both 2017 and 2016.

In addition to the adjustments listed above, we also identified additional misstatements ranging from \$148 to \$170 that we have brought to the Township's attention.

Lack or failure of controls in place over the posting of financial transactions and reporting can result in errors that may go undetected and decreases the reliability of financial data throughout the year.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2017-001 (Continued)

We recommend the Township develop and implement policies and procedures over financial reporting to help ensure the information accurately reflects the activity of the Township and thereby increase the reliability of the financial data throughout the year. In addition, the Township should also review AOS Bulletin 2011-004 for guidance on GASB Statement No. 54 requirements. In addition, the Township should also review the Ohio Township Handbook to improve controls and proper postings.

Officials' Response

Going forward, we will ensure everything is posted to the proper line items.

FINDING NUMBER 2017-002

Posting of Revenues – Noncompliance/Material Weakness

Ohio Rev. Code § 5705.10(D) states, in part, that all revenue derived from a source other than the general property tax, for which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose. Additionally, **Ohio Rev. Code § 5705.10(I)** states that money paid into any fund shall be used only for the purpose for which such fund is established.

In 2016, The Township erroneously posted \$1,476 of intergovernmental homestead and rollback monies to the General fund when they should have been posted to the Road and Bridge fund.

Not posting monies specified for a particular purpose to the correct fund can lead to noncompliance, funds being spent for unallowable purposes, and possible negative fund balances.

The Fiscal Officer should be diligent in assuring funds are properly posted to the correct fund in accordance with the Township's Uniform Accounting Network (UAN) coding system and the Ohio Revised Code.

The Township should review the Township Handbook and exercise due care when posting transactions to help ensure receipts and expenditures are posted to the correct fund and account. Additionally, the Township Board of Trustees should review monthly receipt and expenditure activity reports to help ensure transactions are properly accounted for and classified. This will help more accurately reflect the Township's financial activity and will aid in more accurate financial reporting.

The Township's Fiscal Officer made the adjustments to the Township's accounting records and the adjustments are reflected in the accompanying financial statements.

Officials' Response

Going forward, we will ensure everything is posted to the proper line items.

**JEFFERSON TOWNSHIP
KNOX COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017 AND 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001	Financial Statement Presentation	Not Corrected.	Reissued as Finding 2017-001.



Dave Yost • Auditor of State

JEFFERSON TOWNSHIP

KNOX 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 6, 2018**