

MONTVILLE TOWNSHIP

GEAUGA COUNTY

Audit Report

For the Years Ended December 31, 2017 and 2016





Dave Yost • Auditor of State

Board of Trustees
Montville Township
9755 Madison Road
PO Box 116
Montville, Ohio 44064

We have reviewed the *Independent Auditor's Report* of Montville Township, Geauga County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2016 through December 31, 2017. 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.

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. Montville Township is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 28, 2018

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Montville Township
Geauga County
For the Years Ended December 31, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

Montville Township
Geauga County
9755 Madison Road
PO Box 116
Montville, Ohio 44064

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 Montville Township, Geauga County, (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 the preparation and fair presentation of 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 includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating of the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

As described in Note 2 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 determined, 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, 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 cash balances, receipts and disbursements by fund type, and related notes of Montville Township, Geauga 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 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2017, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Township's 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.



Charles E. Harris & Associates, Inc.
May 31, 2018

**MONTVILLE TOWNSHIP
GEAUGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Cash Receipts:				
Property and Other Local Taxes	\$ 56,882	\$ 313,103	\$ -	\$ 369,985
Charges for Services	-	13,319	-	13,319
Licenses, Permits, and Fees	2,264	3,600	-	5,864
Intergovernmental	41,938	172,794	-	214,732
Earnings on Investments	766	-	-	766
Miscellaneous	11,997	15,988	-	27,985
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	113,847	518,804	-	632,651
Cash Disbursements:				
Current:				
General Government	102,138	-	-	102,138
Public Safety	-	167,601	-	167,601
Public Works	12,081	81,420	-	93,501
Health	-	6,629	-	6,629
Conservation-Recreation	201	-	-	201
Other	-	2,678	5	2,683
Capital Outlay	-	81,163	-	81,163
Debt Service:				
Principal Retirement	-	53,850	-	53,850
Interest and Other Fiscal Charges	-	2,074	-	2,074
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	114,420	395,415	5	509,840
Excess of Receipts Over/(Under) Disbursements	(573)	123,389	(5)	122,811
Other Financing Receipts/(Disbursements):				
Sale of Capital Assets	-	29,050	-	29,050
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	-	29,050	-	29,050
Net Change in Fund Cash Balances	(573)	152,439	(5)	151,861
Fund Cash Balances, January 1	38,376	296,240	234	334,850
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31				
Restricted	-	448,679	229	448,908
Unassigned	37,803	-	-	37,803
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Fund Cash Balances, December 31	<u>\$ 37,803</u>	<u>\$ 448,679</u>	<u>\$ 229</u>	<u>\$ 486,711</u>

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Montville Township, Geauga County, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township also has an elected Township Fiscal Officer. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township police protection services are provided by the Geauga County Sheriff. The Township, if necessary can appropriate general fund money to support the volunteer fire department.

Public Entity Risk Pool

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

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 which are organized on a fund type basis.

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:

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.

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

Ambulance Fund The ambulance fund accounts for and reports the receipt of EMS billings for the purpose of providing emergency medical services to Township residents.

Cemetery Fund The cemetery fund accounts for and reports the sale of cemetery lots for the purpose of maintaining the Township cemetery.

Fire District Fund The fire district fund accounts for and reports the receipt of property tax monies to provide fire protection services to Township residents.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Gas Tax Fund The gas tax fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township.

Motor Vehicle License Tax Fund The motor vehicle license tax fund accounts for and reports that portion of motor vehicle license registration fees restricted for maintenance and repair of roads within the Township.

Road and Bridge Fund The road and bridge fund accounts for and reports the receipt of property tax monies for the purpose of constructing, maintaining and repairing Township roads and bridges.

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 Township's programs for the benefit of the government or its citizenry. The Township had the following significant Permanent Fund:

Garrett Trust Fund The Garrett trust fund accounts for and reports the receipt of earnings on investments for the placement of flowers in the cemetery on an annual basis.

Basis of Accounting

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 disbursements 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.

Budgetary Process

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

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

Encumbrances The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are carried over, and need not be reappropriated.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

A summary of 2017 budgetary activity appears in Note 3.

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.

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.

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.

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:

Nonspendable The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

Committed The 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.

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 the Trustees or a Township official delegated that authority by resolution, or by State Statute. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated resources and appropriations in the subsequent year's appropriated budget in the General Fund.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

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.

Note 3 – Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 106,233	\$ 113,847	\$ 7,614
Special Revenue	513,497	547,854	34,357
Permanent	-	-	-

2017 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 116,488	\$ 114,420	\$ 2,068
Special Revenue	659,851	395,415	264,436
Permanent	6	5	1

Note 4 – Deposits and Investments

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 at December 31 was as follows:

	2017
Demand deposits	\$ 486,711

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS).

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 5 – 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.

Note 6 - Risk Management

Risk Pool Membership

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), 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.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 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, 2017.

	2017
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 \$9,000.

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>2017 Contributions to OTARMA</u>
\$21,420

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.

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Defined Benefit Pension Plans (continued)

The Ohio Revised Code also prescribes contribution rates. 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, 2017.

Social Security

The Township's volunteer firefighters contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2% of their gross salaries. The Township contributed an amount equal to 6.2% of participants' gross salaries. The Township has paid all contributions required through December 31, 2017.

Note 8 – 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. OPERS contributed 1% of the employer contribution to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
Geauga Credit Union Loan	\$ 53,985	2.66%
OPWC Loan	21,102	0.00%
Total	\$75,087	

During 2016, the Township entered into a five-year loan maturing in 2021, from Geauga Credit Union in the amount of \$103,145 for the acquisition of a new 2016 fire pumper-tanker truck. It has replaced a 1999 tanker to provide fire protection to the residents of the Township and surrounding communities. Payments are made annually. The interest rate is 2.659%. The truck itself is held for collateral. The Township intends to repay this loan from the Fire District Fund.

In 2012, the Township entered into a ten-year loan, maturing in 2022, with the Ohio Public Works Commission (OPWC) in the amount of \$46,894 for paving projects of Township roads. The loan is a zero-interest loan. The Township intends to repay this loan jointly from the Road and Bridge Fund and the Street Maintenance and Repair Fund.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 9 – Debt (continued)

Amortization

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

Year ending December 31:	OPWC Loans	Geauga Credit Union Loan
2018	\$ 4,689	\$ 22,184
2019	4,689	22,184
2020	4,689	12,252
2021	4,689	-
2022	2,346	-
Total	\$ 21,102	\$ 56,620

Note 10 – Contingent Liabilities

The Township may be a defendant in lawsuits. Although management cannot presently determine the outcome of any suit, management believes that the resolution of any matter will not materially adversely affect the Township's financial condition.

**MONTVILLE TOWNSHIP
GEAUGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Permanent	
Cash Receipts:					
Property and Other Local Taxes	\$ 55,588	\$ 306,285	\$ -	\$ -	\$ 361,873
Charges for Services	-	20,409	-	-	20,409
Licenses, Permits, and Fees	825	3,155	-	-	3,980
Intergovernmental	42,487	134,786	191,639	-	368,912
Earnings on Investments	823	-	-	-	823
Miscellaneous	20,992	5,328	-	-	26,320
Total Cash Receipts	120,715	469,963	191,639	-	782,317
Cash Disbursements:					
Current:					
General Government	123,436	-	-	-	123,436
Public Safety	-	185,360	-	-	185,360
Public Works	10,691	165,087	-	-	175,778
Health	-	9,059	-	-	9,059
Conservation-Recreation	549	-	-	-	549
Other	-	30,529	-	5	30,534
Capital Outlay	4,000	555,913	191,639	-	751,552
Debt Service:					
Principal Retirement	3,390	1,300	-	-	4,690
Total Cash Disbursements	142,066	947,248	191,639	5	1,280,958
Excess of Receipts Over/(Under) Disbursements	(21,351)	(477,285)	-	(5)	(498,641)
Other Financing Receipts/(Disbursements)					
Other Debt Proceeds	-	103,145	-	-	103,145
Total Other Financing Receipts/(Disbursements)	-	103,145	-	-	103,145
Net Change in Fund Cash Balances	(21,351)	(374,140)	-	(5)	(395,496)
Fund Cash Balances, January 1, Restated	59,727	670,380	-	239	730,346
Fund Cash Balances, December 31					
Restricted	-	296,240	-	234	296,474
Unassigned	38,376	-	-	-	38,376
Fund Cash Balances, December 31	\$ 38,376	\$ 296,240	\$ -	\$ 234	\$ 334,850

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Montville Township, Geauga County, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township also has an elected Township Fiscal Officer. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township police protection services are provided by the Geauga County Sheriff. The Township, if necessary can appropriate general fund money to support the volunteer fire department.

Public Entity Risk Pool

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

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 which are organized on a fund type basis.

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:

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.

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

Ambulance Fund The ambulance fund accounts for and reports the receipt of EMS billings for the purpose of providing emergency medical services to Township residents.

Cemetery Fund The cemetery fund accounts for and reports the sale of cemetery lots for the purpose of maintaining the Township cemetery.

Fire District Fund The fire district fund accounts for and reports the receipt of property tax monies to provide fire protection services to Township residents.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Gas Tax Fund The gas tax fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township.

Motor Vehicle License Tax Fund The motor vehicle license tax fund accounts for and reports that portion of motor vehicle license registration fees restricted for maintenance and repair of roads within the Township.

Road and Bridge Fund The road and bridge fund accounts for and reports the receipt of property tax monies for the purpose of constructing, maintaining and repairing Township roads and bridges.

Capital Projects Funds 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 has the following significant Capital Projects Fund:

Issue II Fund The Issue II fund accounts for and reports the receipt of an OPWC grant restricted for the repair, resurfacing and improving of Whitney Road.

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 Township's programs for the benefit of the government or its citizenry. The Township had the following significant Permanent Fund:

Garrett Trust Fund The Garrett trust fund accounts for and reports the receipt of earnings on investments for the placement of flowers in the cemetery on an annual basis.

Basis of Accounting

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 disbursements 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.

Budgetary Process

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

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

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

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 approve estimated resources.

Encumbrances The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are carried over, and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 3.

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.

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.

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.

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:

Nonspendable The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

Committed The 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.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (continued)

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 the Trustees or a Township official delegated that authority by resolution, or by State Statute. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated resources and appropriations in the subsequent year's appropriated budget in the General Fund.

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.

Note 3 – Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 102,266	\$ 120,715	\$ 18,449
Special Revenue	559,394	573,108	13,714
Capital Projects	200,000	191,639	(8,361)
Permanent	-	-	-

2016 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 152,048	\$ 142,066	\$ 9,982
Special Revenue	1,023,850	947,248	76,602
Capital Projects	200,000	191,639	8,361
Permanent	20	5	15

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 4 – Deposits and Investments

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 at December 31 was as follows:

	2017
Demand deposits	\$ 334,850

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS).

Note 5 – 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.

Note 6 - Risk Management

Risk Pool Membership

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), 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, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 6 - Risk Management (continued)

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.

	2016
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 \$9,000.

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>2016 Contributions to OTARMA</u>
\$20,351

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.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. 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.

Social Security

The Township's volunteer firefighters contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2% of their gross salaries. The Township contributed an amount equal to 6.2% of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

Note 8 – 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. OPERS contributed 2% of the employer contribution to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
Geauga Credit Union Loan	\$ 103,145	2.66%
OPWC Loan	25,792	0.00%
Total	\$128,937	

During 2016, the Township entered into a five-year loan maturing in 2021, from Geauga Credit Union in the amount of \$103,145 for the acquisition of a new 2016 fire pumper-tanker truck. It has replaced a 1999 tanker to provide fire protection to the residents of the Township and surrounding communities. Payments are made annually. The interest rate is 2.659%. The truck itself is held for collateral. The Township intends to repay this loan from the Fire District Fund.

In 2012, the Township entered into a ten-year loan, maturing in 2022, with the Ohio Public Works Commission (OPWC) in the amount of \$46,894 for paving projects of Township roads. The loan is a zero-interest loan. The Township intends to repay this loan jointly from the Road and Bridge Fund and the Street Maintenance and Repair Fund.

Montville Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 9 – Debt (continued)

Amortization

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

Year ending December 31:	OPWC Loans	Geauga Credit Union Loan
2017	\$ 4,689	\$ 51,234
2018	4,689	22,184
2019	4,689	22,184
2020	4,689	12,252
2021	4,689	-
2022-2026	2,347	-
Total	\$ 25,792	\$ 107,854

Note 10 – Contingent Liabilities

The Township may be a defendant in lawsuits. Although management cannot presently determine the outcome of any suit, management believes that the resolution of any matter will not materially adversely affect the Township’s financial condition.

Note 11 – Prior Period Adjustment

A prior period adjustment was necessary to properly reflect the Zoning Fund activity in the General Fund. The following table shows the changes to beginning fund balance:

	General	Special Revenue
Fund Balance, January 1, 2016	\$ 58,607	\$ 671,500
Zoning Fund	1,120	(1,120)
Restated Fund Balance, January 1, 2016	\$ 59,727	\$ 670,380

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Montville Township
Geauga County
9755 Madison Road
PO Box 116
Montville, Ohio 44064

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the cash balances, receipts and disbursements by fund type of Montville Township, Geauga County (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 May 31, 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

In planning and performing our audit of the financial statements, we considered the Township’s internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Township’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Township’s financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

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 the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated May 31, 2018.

Entity's Response to Finding

The Township's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. We did not audit the Township's response and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris and Associates, Inc.
May 31, 2018

Montville Township
Geauga County
Schedule of Findings
December 31, 2017 and 2016

Findings Related to the Financial Statements Required to be Reported in Accordance with GAGAS
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Finding Number: 2017-001 – Material Weakness

Audit Adjustments and Reclassifications

During 2017 and 2016, errors were noted in the Township’s financial statements that required audit adjustments and reclassifications, the most significant of which are as follows:

- The receipt of a capital projects grant was incorrectly posted as a Miscellaneous revenue instead of Intergovernmental revenue.
- The receipt of debt proceeds was incorrectly recorded as Miscellaneous revenue instead of Other Debt Proceeds.
- The Zoning Fund was incorrectly classified as a Special Revenue Fund instead of rolling into the General Fund.
- The payment of principal and interest was incorrectly classified as Capital Outlay instead of Principal Retirement and Interest and Other Fiscal Charges.
- The sale of a Township truck was classified as Miscellaneous Revenue instead of Sale of Capital Assets.
- Grant funds received from FEMA were incorrectly classified as Miscellaneous Revenue instead of Intergovernmental Revenue.
- Several amounts in the budgetary footnotes for both years required adjustment.

Other immaterial posting errors were also noted and brought to the attention of management. The accompanying financial statements and the Township’s records have been adjusted to properly reflect these transactions.

Sound financial reporting is the responsibility of the Township and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. We recommend the Township adopt policies and procedures to identify and correct errors and omissions in a timely manner. Management can use the Ohio Township Handbook, the Uniform Accounting Network Manual, and other Auditor of State guidance to aid in properly identifying account classifications and preparing annual financial statements.

Management’s Response:

See Corrective Action Plan on page 24.

Montville Township
Geauga County
Corrective Action Plan
December 31, 2017 and 2016

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	Management plans to use more care in completing the financial statements in the future and will review all postings prior to filing in the future.	June 1, 2018	Karen Hawkins, Fiscal Officer



Dave Yost • Auditor of State

MONTVILLE TOWNSHIP

GEAUGA 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
JULY 10, 2018**