



Dave Yost • Auditor of State

**SOMERSET TOWNSHIP
BELMONT COUNTY**

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Dave Yost • Auditor of State

Somerset Township
Belmont County
56783 Somerton Highway
Barnesville, Ohio 43713

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Dave Yost
Auditor of State

May 17, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Somerset Township
Belmont County
56783 Somerton Highway
Barnesville, Ohio 43713

To the Board of Trustees:

We have audited the accompanying financial statements of Somerset Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity-wide statements and also presenting the Township's larger (i.e., major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2011 and 2010, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010 of Somerset Township, Belmont County, Ohio, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1F, during 2011, the Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Dave Yost
Auditor of State

May 17, 2012

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Government Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts			
Property and Other Local Taxes	\$64,167	\$132,750	\$196,917
Intergovernmental	50,894	133,269	184,163
Earnings on Investments	60	54	114
Miscellaneous	1,258	1,300	2,558
Total Cash Receipts	<u>116,379</u>	<u>267,373</u>	<u>383,752</u>
Cash Disbursements			
Current:			
General Government	37,453	52,980	90,433
Public Safety	441		441
Public Works	2,500	200,560	203,060
Health	3,500		3,500
Conservation-Recreation	2,000		2,000
Capital Outlay	28,848	2,625	31,473
Debt Service:			
Principal Retirement	19,200		19,200
Interest and Fiscal Charges	1,556		1,556
Total Cash Disbursements	<u>95,498</u>	<u>256,165</u>	<u>351,663</u>
Excess of Cash Receipts Over Cash Disbursements	<u>20,881</u>	<u>11,208</u>	<u>32,089</u>
Fund Cash Balances, January 1	<u>15,291</u>	<u>9,172</u>	<u>24,463</u>
Fund Cash Balances, December 31			
Restricted		14,551	14,551
Assigned	11,104	5,829	16,933
Unassigned	25,068		25,068
Fund Cash Balances, December 31	<u>\$36,172</u>	<u>\$20,380</u>	<u>\$56,552</u>

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

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$24,477	\$40,781	\$65,258
Intergovernmental	53,793	117,845	171,638
Earnings on Investments	79	40	119
Miscellaneous	3,349	15	3,364
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	81,698	158,681	240,379
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
General Government	36,287	30,096	66,383
Public Works	5,424	132,572	137,996
Health	13,689		13,689
Conservation - Recreation	5,320		5,320
Capital Outlay	34,320	100	34,420
Debt Service:			
Redemption of Principal	4,000		4,000
Interest and Other Fiscal Charges	1,986		1,986
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	101,026	162,768	263,794
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts (Under) Cash Disbursements	(19,328)	(4,087)	(23,415)
Fund Cash Balances, January 1	34,619	13,259	47,878
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Fund Cash Balances, December 31	\$15,291	\$9,172	\$24,463
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 Somerset Township, Belmont County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with Somerset Volunteer Fire Department to provide fire and ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. Note 7 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.

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits

The Township values certificates of deposit at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash that is restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

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

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. The Township did not encumber all commitments required by Ohio law.

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

For December 31, 2011, 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.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

2. Restricted

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

3. Committed

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

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

H. 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.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

2. Equity in Pooled Deposits

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

	2011	2010
Demand deposits	\$51,631	\$19,575
Certificates of deposit	4,921	4,888
Total deposits	\$56,552	\$24,463

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2011 and 2010, follows:

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$113,532	\$116,379	\$2,847
Special Revenue	242,649	267,373	24,724
Total	\$356,181	\$383,752	\$27,571

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$93,107	\$95,498	(\$2,391)
Special Revenue	150,244	256,165	(105,921)
Total	\$243,351	\$351,663	(\$108,312)

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$73,248	\$81,698	\$8,450
Special Revenue	139,748	158,681	18,933
Total	\$212,996	\$240,379	\$27,383

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$107,745	\$101,026	\$6,719
Special Revenue	100,338	162,768	(62,430)
Total	\$208,083	\$263,794	(\$55,711)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in several funds at the legal level of control for the years ended December 31, 2011 and 2010.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

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.

Public utilities are also taxed on personal and real property located within the Township.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

5. Debt

Debt outstanding at December 31, 2011, was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$25,800	4.25%

The Township issued general obligation bonds to finance the purchase of a new dump truck for Township road maintenance. The Township's taxing authority collateralized the bonds.

During 2011, the Township made principal payments in addition to what was required per the amortization schedule.

Amortization of the above debt, including interest and not considering additional principal payments, is scheduled as follows:

Year ending December 31:	General Obligation Bonds
2012	\$6,134
2013	6,147
2014	6,152
2015	6,048
2016	6,139
2017-2019	18,358
Total	\$48,978

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

6. Retirement System

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

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, 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, 2011.

7. 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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2010, OTARMA retained \$350,000 for casualty claims and \$150,000 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, 2010 and 2009 (the latest information available):

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

7. Risk Management (Continued)

	<u>2010</u>	<u>2009</u>
Assets	\$35,855,252	\$38,982,088
Liabilities	(10,664,724)	(12,880,766)
Net Assets	<u>\$25,190,528</u>	<u>\$26,101,322</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$9.9 and \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$9.5 and \$11.5 million of unpaid claims to be billed to approximately 940 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Township's share of these unpaid claims collectible in future years is approximately \$5,000.

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>2011</u>	<u>2010</u>
\$6,703	\$6,042

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.

8. Contingent Liabilities

Amounts grantor agencies pay to the township are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Somerset Township
Belmont County
56783 Somerton Highway
Barnesville, Ohio 43713

To the Board of Trustees:

We have audited the financial statements of Somerset Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated May 17, 2012, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and wherein we also noted, for December 31, 2011, the Township has adopted Governmental Accounting Standards Board Statement No. 54. We also noted the Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

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 deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider significant deficiencies in internal control over financial reporting. We consider findings 2011-03 and 2011-04 to be significant deficiencies. 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.

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, providing an opinion 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2011-01 and 2011-02.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated May 17, 2012.

We intend this report solely for the information and use of management, the audit committee, the Board of Trustees, and others within the Township. We intend it for no one other than these specified parties.



Dave Yost
Auditor of State

May 17, 2012

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

FINDING NUMBER 2011-01

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

During 2010, the Township appropriated at the fund/function/object level. We noted the following instances where expenditures exceeded appropriations at the legal level of control at December 31, 2010:

Fund / Function/ Object	2010 Appropriations	2010 Expenditures	Variance
<u>General Fund</u>			
<i>General Government:</i>			
Trustees	\$5,500	\$5,509	(\$9)
Township Fiscal Officer	9,903	9,977	(74)
Medicare	0	168	(168)
Workers' Compensation	500	1,250	(750)
Employee Reimbursements	0	227	(227)
Auditing Services and UAN fees	4,800	5,766	(966)
Payment to Another Pol. Sub.	5,000	6,122	(1,122)
Repairs and Maintenance	0	175	(175)
Office Supplies	500	1,585	(1,085)
Operating Supplies	500	5,424	(4,924)
 <i>Public Works:</i>			
Repairs and Maintenance	0	1,994	(1,994)
 <i>Capital Outlay:</i>			
Operating Supplies	7,000	14,113	(7,113)
Improvement of Sites	0	6,048	(6,048)
 <i>Debt Service:</i>			
Principal Payments	0	175	(175)
Interest Payments	0	1,986	(1,986)

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-01 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(B) (Continued)

Fund / Function/ Object	2010 Appropriations	2010 Expenditures	Variance
<u>Motor Vehicle License Tax</u>			
<i>Public Works:</i>			
Medicare	\$50	\$60	(\$10)
Operating Supplies	0	6,500	(6,500)
<u>Gasoline Tax</u>			
<i>Public Works:</i>			
Trustees	10,998	12,259	(1,261)
Medicare	0	120	(120)
Workers Compensation	100	145	(45)
Maintenance - Salaries	40,000	45,304	(5,304)
OPERS	0	6,588	(6,588)
Medicare	0	518	(518)
Workers Compensation	0	1,400	(1,400)
Payment to Another Pol. Sub.	0	28	(28)
Operating Supplies	0	20,781	(20,781)
<u>Road and Bridge</u>			
<i>Public Works:</i>			
Repairs and Maintenance	7,100	7,852	(752)
Utilities	1,500	3,027	(1,527)
Payment to Another Pol. Sub.	0	300	(300)
Insurance	5,000	6,042	(1,042)
Operating Supplies	0	23,994	(23,994)
<u>Fire Levy</u>			
<i>Public Works:</i>			
Contract Services	7,500	10,000	(2,500)
<u>USDA - Misc Special Revenue</u>			
<i>Capital Outlay:</i>			
Motor Vehicles	0	100	(100)

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

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

FINDING NUMBER 2011-01 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(B) (Continued)

During 2011, the Township appropriated at the fund/function/object level. We noted the following instances where expenditures exceeded appropriations at the legal level of control at December 31, 2011:

Fund / Function/ Object	2011 Appropriations	2011 Expenditures	Variance
<u>General</u>			
<i>General Government:</i>			
Medicare	\$5,500	\$7,115	(\$1,615)
Township Fiscal Officer	9,903	12,066	(2,163)
OPERS	2,300	3,877	(1,577)
Medicare	0	389	(389)
Employee Reimbursements	0	222	(222)
Auditing Services and UAN fees	0	909	(909)
Payment to Another Pol. Sub.	5,600	9,337	(3,737)
Insurance	0	441	(441)
Operating Supplies	800	2,500	(1,700)
 <i>Public Works:</i>			
Other - Salaries	0	2,000	(2,000)
Repairs and Maintenance	0	1,500	(1,500)
 <i>Capital Outlay:</i>			
Operating Supplies	9,000	19,193	(10,193)
Improvement of Sites	0	5,791	(5,791)
 <i>Debt Service:</i>			
Principal Payments	0	19,200	(19,200)
Interest Payments	0	1,556	(1,556)

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

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

FINDING NUMBER 2011-01 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(B) (Continued)

<u>Fund / Function/ Object</u>	<u>2011 Appropriations</u>	<u>2011 Expenditures</u>	<u>Variance</u>
<u>Motor Vehicle License Tax</u>			
<i>Public Works:</i>			
Trustees	\$5,500	\$7,013	(\$1,513)
OPERS	770	1,067	(297)
Medicare	50	109	(59)
Material	1,955	9,056	(7,101)
 <u>Gasoline Tax</u>			
<i>Public Works:</i>			
Medicare	0	195	(195)
OPERS	0	5,641	(5,641)
Medicare	0	845	(845)
Workers Compensation	0	1,000	(1,000)
 <u>Road and Bridge</u>			
<i>Public Works:</i>			
Repairs and Maintenance	4,816	8,145	(3,329)
Utilities	1,750	3,300	(1,550)
Payment to Another Pol. Sub.	0	1,000	(1,000)
Insurance	5,300	6,703	(1,403)
Other Expenses	2,000	86,274	(84,274)
 <u>Fire Levy</u>			
<i>Public Works:</i>			
Contract Services	7,984	30,516	(22,532)

The Township's failure to limit expenditures to the amounts appropriated could result in deficit spending.

We recommend the Township Trustees and Fiscal Officer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Township Trustees should take the necessary step to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Township Fiscal Officer should deny requests for payment when appropriations are not available.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-02

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code:

Then and Now Certificate – If the fiscal officer can certify that both at the time the contract or order was made "then" and at the time that the fiscal officer is completing the certification "now", that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000, may be paid by the fiscal officer without a resolution or ordinance of the Township upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-02 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Although the obligations paid by the Township had a statement indicating the purchase was lawfully appropriated or in the process of collection to the credit of an appropriate fund, and free from any previous encumbrance, this certification of available funds was not obtained prior to incurring the obligation for 93% and 67% of transactions tested for 2011 and 2010, respectively, and there was no evidence of a “Then and Now” certificate being utilized. Failure to properly certify the availability of funds can result in overspending of funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township’s funds exceeding budgetary spending limitations, we recommend the Township Fiscal Officer certify that funds are or will be available prior to obligations being incurred by the Township. When prior certification is not possible, “then and now” certificates should be used.

We recommend the Township certify purchases to which Ohio Rev. Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Township Fiscal Officer should sign the certification prior to the Township incurring a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Township Fiscal Officer should post approved purchase commitments to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2011-03

Significant Deficiency

The Township should have internal controls in place to reasonably assure that budgetary accounts are integrated into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations. The Fiscal Officer did not properly post budgeted receipts, and any amendments made to them, to the accounting system. Variances existed between the certificate of estimated resources and the amounts posted to the accounting system throughout the year. The following table details these variances:

Estimated Receipts - 2011

<u>Fund</u>	<u>Amount per Last Amended Certificate</u>	<u>Amount Posted to the Accounting System</u>	<u>Variance</u>
General	\$113,532	\$125,298	\$11,766
Motor Vehicle			
License Tax	14,320	23,820	9,500
Gasoline Tax	87,000	86,000	(1,000)
Road and Bridge	95,750	124,350	28,600
Special Levy - Fire	24,000	33,200	9,200

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

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

FINDING NUMBER 2011-03 (Continued)

Significant Deficiency (Continued)

Estimated Receipts - 2010

<u>Fund</u>	<u>Amount per Last Amended Certificate</u>	<u>Amount Posted to the Accounting System</u>	<u>Variance</u>
General	\$73,248	\$83,500	\$10,252
Motor Vehicle License Tax	12,948	14,320	1,372
Gasoline Tax	86,000	89,391	3,391
Road and Bridge	33,000	35,229	2,229

The Fiscal Officer did not always accurately post appropriations to the accounting system. Variances existed between the appropriation resolution and the amounts posted to the accounting system. The following table details these variances:

Appropriations - 2011

<u>Fund</u>	<u>Amount per Last Appropriation Resolution</u>	<u>Amount Posted to the Accounting System</u>	<u>Variance</u>
General	\$93,107	\$113,803	(\$20,696)
Motor Vehicle License Tax	15,675	24,485	(8,810)
Gasoline Tax	86,478	85,972	506
Road and Bridge	34,003	107,306	(73,303)
Special Levy - Fire	8,164	32,361	(24,197)
FEMA	0	21,509	(21,509)

Appropriations - 2010

<u>Fund</u>	<u>Amount per Last Appropriation Resolution</u>	<u>Amount Posted to the Accounting System</u>	<u>Variance</u>
General	\$107,745	\$120,799	(\$13,054)
Motor Vehicle License Tax	14,320	20,470	(6,150)
Gasoline Tax	64,738	131,245	(66,507)
Road and Bridge	13,600	41,760	(28,160)
Special Levy - Fire	7,680	10,240	(2,560)
USDA	0	125	(125)

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

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

FINDING NUMBER 2011-03 (Continued)

Significant Deficiency (Continued)

Because the information entered into the accounting system was inaccurate, Township management was unable to effectively monitor budgetary activity throughout the year. Adjustments were made to the budgetary activity reported in Note 3 to the financial statements in order to accurately present budgeted receipts as certified by the County Auditor and appropriations per the appropriation resolution.

We recommend the Fiscal Officer record only estimated receipts per the Official Certificate of Estimated Resources and appropriations approved by the Board of Trustees. The Fiscal Officer should periodically present budget vs. actual results to the Board of Trustees. As part of their monitoring responsibilities, the Board of Trustees should review this information and should inquire to the Fiscal Officer if they note apparent errors in the budget or actual data and should also use this information to determine if they should amend estimated revenue or appropriations.

FINDING NUMBER 2011-04

Significant Deficiency

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Ohio Township Handbook (revised March 2012) provides suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example) and classify disbursements by fund, program (general government, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Township with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

During 2011 and 2010, Township receipts and expenditures were not always posted to accurate classifications, based upon the source of receipt or purpose of disbursement.

For example, in 2011, homestead and rollback of \$3,679, \$4,423, and \$1,029 were posted to "taxes" instead of "intergovernmental revenue" in the General, Road and Bridge, and Special Levy funds, respectively. Personal Property Reimbursement of \$106, \$194, and \$59 were posted to "taxes" instead of "intergovernmental revenue" in the General, Road and Bridge, and Special Levy funds, respectively. In addition, a debt payment for principal in the amount of \$15,000 was posted as "Capital Outlay - Machinery, Equipment, and Furniture" instead of "Debt Service - Principal Retirement" in the General Fund.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2011-04 (Continued)

Significant Deficiency (Continued)

For example, in 2010, homestead and rollback of \$3,776, \$4,562, and \$1,060 were posted to "taxes" instead of "intergovernmental revenue" in the General, Road and Bridge, and Special Levy funds, respectively. A deregulation reimbursement of \$537 and \$163 was posted to "taxes" instead of "intergovernmental revenue" in the Road and Bridge and Special Levy funds, respectively. Personal Property Reimbursements of \$597, \$1,276, and \$387 were posted to "taxes" instead of "intergovernmental revenue" in the General, Road and Bridge, and Special Levy funds, respectively. In addition, a debt payment for principal and interest in the amounts of \$4,000 and \$1,986 was posted as "Capital Outlay - Machinery, Equipment, and Furniture" instead of "Debt Service - Principal Retirement" and "Debt Service - Interest and Fiscal Charges", respectively.

Material adjustments with which the Township officials' agree are reflected in the accompanying financial statements.

We recommend the Township utilize available authoritative resources to appropriately classify receipt and expenditure transactions.

Officials' Response: We did not receive a response from Officials to the findings reported above.

**SOMERSET TOWNSHIP
BELMONT COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-001	Ohio Rev. Code Section 5705.41(B) – expenditures exceeded appropriations in several funds	No	Not Corrected: Repeated as Finding No. 2011-01.
2009-002	Ohio Rev. Code Section 5705.41(D)(1) – no certification of availability of funds prior to incurring obligations.	No	Not Corrected: Repeated as Finding No. 2011-02.
2009-003	Not posting debt proceeds and capital outlay expenditure to financial records.	Yes	Finding No Longer Valid.
2009-004	Not always properly posting estimated receipts and appropriations within accounting system.	No	Not Corrected: Repeated as 2011-03.



Dave Yost • Auditor of State

SOMERSET TOWNSHIP

BELMONT 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
MAY 31, 2012**