

**SOMERFORD TOWNSHIP
MADISON COUNTY
Regular Audit
For the Years Ended December 31, 2012 and 2011**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Board of Trustees
Somerset Township
P.O. Box 861
London, Ohio 43140

We have reviewed the *Independent Auditors' Report* of Somerset Township, Madison County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2011 through December 31, 2012. 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. Somerset 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

December 2, 2013

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**SOMERFORD TOWNSHIP
MADISON COUNTY**

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INDEPENDENT AUDITOR'S REPORT

October 25, 2013

Somerford Township
Madison County
P.O. Box 861
London, Ohio 43140

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of **Somerford Township**, Madison County, Ohio (the Township) as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

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, 2012 and 2011, or changes in financial position thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Somerford Township, Madison County as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1B.

Emphasis of Matter

As discussed in Note 1F to the financial statements, during 2011 Somerford Township, Madison County adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2013, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | <u>General</u> | <u>Special Revenue</u> | <u>Permanent</u> | <u>Totals (Memorandum Only)</u> |
|--|--------------------------|----------------------------|------------------------|---|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$ 123,169 | \$ 304,593 | \$ - | \$ 427,762 |
| Licenses, Permits and Fees | - | 18,283 | - | 18,283 |
| Intergovernmental | 53,567 | 118,320 | - | 171,887 |
| Earnings on Investments | 96 | - | - | 96 |
| Miscellaneous | 6,096 | 17,592 | - | 23,688 |
| <i>Total Cash Receipts</i> | <u>182,928</u> | <u>458,788</u> | <u>-</u> | <u>641,716</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| General Government | 190,543 | 3,034 | - | 193,577 |
| Public Safety | - | 262,149 | - | 262,149 |
| Public Works | 4,911 | 91,184 | - | 96,095 |
| Health | 44,376 | 7,984 | - | 52,360 |
| Other | - | 80 | - | 80 |
| Capital Outlay | - | 3,912 | - | 3,912 |
| <i>Total Cash Disbursements</i> | <u>239,830</u> | <u>368,343</u> | <u>-</u> | <u>608,173</u> |
| <i>Excess of Receipts Over/(Under) Disbursements</i> | <u>(56,902)</u> | <u>90,445</u> | <u>-</u> | <u>33,543</u> |
| Other Financing Receipts(Disbursements) | | | | |
| Transfers In | - | 15,000 | - | 15,000 |
| Transfers Out | (15,000) | - | - | (15,000) |
| Advances In | - | 1,411 | - | 1,411 |
| Advances Out | (1,411) | - | - | (1,411) |
| Other Financing Sources | 1,095 | - | - | 1,095 |
| <i>Total Other Financing Receipts(Disbursements)</i> | <u>(15,316)</u> | <u>16,411</u> | <u>-</u> | <u>1,095</u> |
| <i>Net Change in Fund Cash Balances</i> | <u>(72,218)</u> | <u>106,856</u> | <u>-</u> | <u>34,638</u> |
| <i>Fund Cash Balances, January 1</i> | <u>328,742</u> | <u>186,121</u> | <u>1,910</u> | <u>516,773</u> |
| Fund Cash Balances, December 31 | | | | |
| Nonspendable | - | 80 | 1,910 | 1,990 |
| Restricted | - | 292,897 | - | 292,897 |
| Unassigned | 256,524 | - | - | 256,524 |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$ 256,524</u></u> | <u><u>\$ 292,977</u></u> | <u><u>\$ 1,910</u></u> | <u><u>\$ 551,411</u></u> |

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

**SOMERFORD TOWNSHIP
MADISON COUNTY**

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

| | <u>General</u> | <u>Special Revenue</u> | <u>Permanent</u> | <u>Totals (Memorandum Only)</u> |
|---|--------------------------|----------------------------|------------------------|---|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$ 112,675 | \$ 185,146 | \$ - | \$ 297,821 |
| Licenses, Permits and Fees | - | 17,431 | - | 17,431 |
| Intergovernmental | 83,688 | 114,009 | - | 197,697 |
| Earnings on Investments | 247 | 15 | - | 262 |
| Miscellaneous | - | 6,628 | - | 6,628 |
| <i>Total Cash Receipts</i> | <u>196,610</u> | <u>323,229</u> | <u>-</u> | <u>519,839</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| General Government | 193,007 | 4,769 | - | 197,776 |
| Public Safety | - | 200,000 | - | 200,000 |
| Public Works | 9,672 | 105,466 | - | 115,138 |
| Health | 3,437 | 8,782 | - | 12,219 |
| Other | - | 73 | - | 73 |
| Capital Outlay | - | 5,274 | - | 5,274 |
| <i>Total Cash Disbursements</i> | <u>206,116</u> | <u>324,364</u> | <u>-</u> | <u>530,480</u> |
| <i>Excess of Receipts (Under) Disbursements</i> | <u>(9,506)</u> | <u>(1,135)</u> | <u>-</u> | <u>(10,641)</u> |
| Other Financing Receipts(Disbursements) | | | | |
| Advances In | - | 20,000 | - | 20,000 |
| Advances Out | (20,000) | - | - | (20,000) |
| <i>Total Other Financing Receipts(Disbursements)</i> | <u>(20,000)</u> | <u>20,000</u> | <u>-</u> | <u>-</u> |
| <i>Net Change in Fund Cash Balances</i> | <u>(29,506)</u> | <u>18,865</u> | <u>-</u> | <u>(10,641)</u> |
| <i>Fund Cash Balances, January 1 (As Restated - See Note 7)</i> | <u>358,248</u> | <u>167,256</u> | <u>1,910</u> | <u>527,414</u> |
| Fund Cash Balances, December 31 | | | | |
| Nonspendable | - | 80 | 1,910 | 1,990 |
| Restricted | - | 185,593 | - | 185,593 |
| Assigned | - | 448 | - | 448 |
| Unassigned | 328,742 | - | - | 328,742 |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$ 328,742</u></u> | <u><u>\$ 186,121</u></u> | <u><u>\$ 1,910</u></u> | <u><u>\$ 516,773</u></u> |

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

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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 Somerford Township, Madison County, Ohio (the Township) as body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides general governmental services, including road and bridge maintenance and fire protection services. The Township contracts with the City of London for fire protection services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a risk sharing pool available to Ohio Townships. Note 6 to the financial statements provides additional information for this entity. This organization is a:

Public Entity Risk Pool:

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.

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 Fiscal Officer invests funds of the Township in an interest-bearing checking account and certificates of deposit. Certificates of deposit are valued 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 accounts for and reports all financial resources not accounted for in another fund.

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

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

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

Permissive Motor Vehicle License Fund - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

Fire District Fund - This fund receives property tax money to provide fire protection services to the Township.

3. Permanent Fund

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. 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 commitments are made. Encumbrances outstanding at year end are cancelled, and reappropriated in the subsequent year. A summary of 2012 and 2011 budgetary activity appears in Note 3.

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance

In 2011 the Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which had no effect on fund balances. 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 classified assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

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

3. Committed

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

4. Assigned

Assigned funds 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* amount 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.

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(CONTINUED)**

2. EQUITY IN POOLED DEPOSITS

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

| | 2012 | 2011 |
|-------------------------|------------|------------|
| Demand Deposits | \$ 548,621 | \$ 513,983 |
| Certificates of Deposit | 2,790 | 2,790 |
| Total Deposits | \$ 551,411 | \$ 516,773 |

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|------------|
| General | \$ - | \$ 184,023 | \$ 184,023 |
| Special Revenue | 360,306 | 473,788 | 113,482 |
| Total | \$ 360,306 | \$ 657,811 | \$ 297,505 |

2012 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|------------|
| General | \$ 362,300 | \$ 254,830 | \$ 107,470 |
| Special Revenue | 500,389 | 368,343 | 132,046 |
| Total | \$ 862,689 | \$ 623,173 | \$ 239,516 |

2011 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|------------|
| General | \$ 27,953 | \$ 196,610 | \$ 168,657 |
| Special Revenue | 247,336 | 323,229 | 75,893 |
| Total | \$ 275,289 | \$ 519,839 | \$ 244,550 |

2011 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|------------|
| General | \$ 375,900 | \$ 206,116 | \$ 169,784 |
| Special Revenue | 404,800 | 324,364 | 80,436 |
| Total | \$ 780,700 | \$ 530,480 | \$ 250,220 |

Contrary to Ohio law, appropriations exceeded estimated resources in the General Fund in 2012.

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(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. RETIREMENT SYSTEMS

The Township's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multi-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 2012 and 2011, 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, 2012.

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. 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, 2012, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(CONTINUED)**

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, 2012 and 2011 (the latest information available):

| | <u>2012</u> | <u>2011</u> |
|-------------|---------------------|---------------------|
| Assets | \$34,771,270 | \$35,086,165 |
| Liabilities | <u>(9,355,082)</u> | <u>(9,718,792)</u> |
| Net Assets | <u>\$25,416,188</u> | <u>\$25,367,373</u> |

At December 31, 2012 and 2011, respectively, the liabilities above include approximately \$8.7 and \$9.1 million of estimated incurred claims payable. The assets above also include approximately \$7.96 and \$8.6 million of unpaid claims to be billed to approximately 944 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Township's share of these unpaid claims collectible in future years is approximately \$3,000.

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>2012</u> | <u>2011</u> |
| \$4,733 | \$4,883 |

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.

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(CONTINUED)**

7. RESTATEMENT OF FUND BALANCE

During the prior audit, the Township redeemed certificates of deposit and recorded this as revenues. Beginning fund balance for the General Fund was adjusted to reflect the adjustment for the redemptions.

| | <u>General Fund</u> |
|--|---------------------|
| Fund Cash Balance, January 1, 2011 | \$ 370,470 |
| Adjustment for CD redemptions | <u>(12,222)</u> |
| Fund Cash Balance, January 1, 2011 – As Restated | <u>\$ 358,248</u> |

Perry & Associates
Certified Public Accountants, A.C.

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

October 25, 2013

Somerford Township
Madison County
P.O. Box 861
London, Ohio 43140

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United State and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of **Somerford Township**, Madison County, Ohio, (the Township) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated October 25, 2013, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits and the Township adopted provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of audit findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. We consider finding 2012-001 described in the accompanying schedule of audit findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2012-002 as described in the accompanying schedule of audit findings to be a significant deficiency.

Compliance and Other Matters

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

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated October 25, 2013.

Purpose of this Report

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

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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

FINDING NUMBER 2012-001

Material Weakness

Posting Receipts and Disbursements

Receipts and disbursements should be posted to the fund and line item accounts as established by Ohio Administrative Code.

Receipts and disbursements were not always posted correctly. For example;

- Gasoline tax intergovernmental receipts were recorded in the General Fund instead of the Gasoline Tax Fund in 2011 and 2012.
- Gasoline tax and homestead/rollback intergovernmental receipts were recorded as Property Tax receipts instead of Intergovernmental receipts in the General and Fire Funds in 2011 and 2012.
- Real estate and permissive motor vehicle tax receipts were recorded as Intergovernmental receipts instead of Property Tax receipts in the General and Permissive Motor Vehicle License Tax Funds in 2011 and 2012.
- Real estate tax receipts were posted in the net instead of the gross in the General and Fire Funds in 2011.
- Estate Tax receipts were recorded as Licenses, Permits and Fees instead of Intergovernmental receipts in the General Fund for 2011.
- Investment balances were overstated.

This resulted in several adjustments and reclassifications being made to the Township's financial statements. Township Officials were in agreement with the proposed adjustments and reclassifications, and all adjustments have been made to the Township's accounting system. The financial statements reflect all adjustments and reclassifications.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all sources of revenues and disbursements are properly identified and classified on the financial statements.

We also recommend the Fiscal Officer refer to Ohio Administrative Code Section 117-7-01 and/or the Ohio Township Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and expenditures.

Management's Response – We did not receive a response from officials to this finding.

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2012-002

Significant Deficiency

Advances

In order to advance cash from one fund to another, Auditor of State Bulletin 97-003 suggests there must be statutory authority to use the money in the fund advancing the cash (the “creditor” fund) for the same purpose for which the fund receiving the cash (the “debtor” fund) was established. In addition, advances must be approved by a formal resolution of the taxing authority of the subdivision which must include: (1) a specific statement that the transaction is an advance of cash, and, (2) an indication of the money (fund) from which it is expected that repayment will be made.

To alleviate short-term cash flow problems, the Township advanced cash between the funds. Some advances performed were not paid back as of the end of the audit period.

We recommend that the Township follow the guidance outlined in Auditor of State Bulletin 97-003 to initiate an advance. The Board of Trustees should approve all advances. In addition, if the Township’s intent is to not repay the advance, the taxing authority should by Resolution turn the unpaid advance into a transfer.

Management’s Response – We did not receive a response from officials to this finding.

**SOMERFORD TOWNSHIP
MADISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|------------------|------------------|--|
| 2010-001 | Posting Receipts | No | Not Corrected; Repeated as Finding 2012-001 |

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Dave Yost • Auditor of State

SOMERFORD TOWNSHIP

MADISON COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 12, 2013**