



Dave Yost • Auditor of State



**SOMERSET TOWNSHIP  
BELMONT COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Somerset Township  
Belmont County  
56783 Somerton Highway  
Barnesville, Ohio 43713

To the Board of Trustees:

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

We have audited the accompanying financial statements and related notes of Somerset Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2013 and 2012.

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

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

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

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

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

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

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

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

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 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, 2013 and 2012, or changes in financial position thereof for the years then ended.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Somerset Township, Belmont County, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 7, 2014, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

July 7, 2014

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$71,981	\$161,346	\$233,327
Licenses, Permits and Fees	2,250		2,250
Intergovernmental	30,866	135,422	166,288
Earnings on Investments	27	55	82
Miscellaneous	12,674	32,648	45,322
	<b>117,798</b>	<b>329,471</b>	<b>447,269</b>
<b>Cash Disbursements</b>			
Current:			
General Government	66,168	58,106	124,274
Public Works	2,477	270,841	273,318
Health	32,458	3,546	36,004
Capital Outlay	51,475		51,475
	<b>152,578</b>	<b>332,493</b>	<b>485,071</b>
<i>Total Cash Disbursements</i>	<b>152,578</b>	<b>332,493</b>	<b>485,071</b>
<i>Excess of Cash Receipts (Under) Cash Disbursements</i>	<b>(34,780)</b>	<b>(3,022)</b>	<b>(37,802)</b>
<b>Other Financing Receipts (Disbursements)</b>			
Sale of Notes	44,500		44,500
Other Financing Sources	3,557	2,667	6,224
Other Financing Uses	(6,092)		(6,092)
	<b>41,965</b>	<b>2,667</b>	<b>44,632</b>
<i>Total Other Financing Receipts (Disbursements)</i>	<b>41,965</b>	<b>2,667</b>	<b>44,632</b>
<i>Net Change in Fund Cash Balances</i>	<b>7,185</b>	<b>(355)</b>	<b>6,830</b>
<i>Fund Cash Balances, January 1</i>	<b>48,025</b>	<b>61,105</b>	<b>109,130</b>
<b>Fund Cash Balances, December 31</b>			
Restricted		60,750	60,750
Unassigned (Deficit)	55,210		55,210
	<b>55,210</b>	<b>60,750</b>	<b>115,960</b>
<i>Fund Cash Balances, December 31</i>	<b>55,210</b>	<b>60,750</b>	<b>115,960</b>

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

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$76,833	\$162,444	\$239,277
Intergovernmental	76,795	112,913	189,708
Earnings on Investments	44	56	100
Miscellaneous	10,825		10,825
<i>Total Cash Receipts</i>	<u>164,497</u>	<u>275,413</u>	<u>439,910</u>
<b>Cash Disbursements</b>			
Current:			
General Government	75,028	38,534	113,562
Public Safety	1,231		1,231
Public Works	13,200	192,758	205,958
Health	5,528	1,396	6,924
Conservation-Recreation	2,785		2,785
Capital Outlay	27,896	2,000	29,896
Debt Service:			
Principal Retirement	24,976		24,976
Interest and Fiscal Charges	2,000		2,000
<i>Total Cash Disbursements</i>	<u>152,644</u>	<u>234,688</u>	<u>387,332</u>
<i>Excess of Cash Receipts Over Cash Disbursements</i>	<u>11,853</u>	<u>40,725</u>	<u>52,578</u>
<b>Other Financing Receipts (Disbursements)</b>			
Other Financing Sources		887	887
Other Financing Uses		(887)	(887)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	11,853	40,725	52,578
<i>Fund Cash Balances, January 1</i>	<u>36,172</u>	<u>20,380</u>	<u>56,552</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		61,105	61,105
Unassigned (Deficit)	48,025		48,025
<i>Fund Cash Balances, December 31</i>	<u>\$48,025</u>	<u>\$61,105</u>	<u>\$109,130</u>

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



**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012**

**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 Somerton Volunteer Fire Department to provide fire and ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. OTARMA is a risk-sharing pool available to Ohio Townships for insurance coverage. Note 7 to the financial statements provides additional information for this risk pool membership.

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. Fund Accounting**

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

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

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

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

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**C. Fund Accounting (Continued)**

**2. Special Revenue Funds (Continued)**

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

**D. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2013 and 2012 budgetary activity appears in Note 3.

**E. Fund Balance**

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

**1. Nonspendable**

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

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**E. 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.

**F. 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.

**G. 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, 2013 AND 2012  
(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:

	2013	2012
Demand deposits	\$112,405	\$105,605
Certificates of deposit	3,555	3,525
Total deposits	\$115,960	\$109,130

**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 ending December 31, 2013 and 2012, follows:

**2013 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$150,977	\$165,855	\$14,878
Special Revenue	277,765	332,138	54,373
Total	\$428,742	\$497,993	\$69,251

**2013 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$142,656	\$158,670	(\$16,014)
Special Revenue	297,463	332,493	(35,030)
Total	\$440,119	\$491,163	(\$51,044)

**2012 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$150,428	\$164,497	\$14,069
Special Revenue	233,000	276,300	43,300
Total	\$383,428	\$440,797	\$57,369

**2012 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$139,539	\$152,644	(\$13,105)
Special Revenue	247,353	235,575	11,778
Total	\$386,892	\$388,219	(\$1,327)

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**3. Budgetary Activity (Continued)**

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General, Road & Bridge, Special Levy-Fire, and Miscellaneous Special Revenue Funds' by \$16,014, \$35,335, \$19,703, and \$2,713, respectively, for the year ended December 31, 2013. Also, budgetary expenditures exceeded appropriation authority in the General, Cemetery-Union, Special Levy-Fire, and Miscellaneous Special Revenue Funds' by \$13,105, \$2,283, \$9,820, and \$1,522, respectively, for the year ended December 31, 2012.

**4. Property Tax**

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

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

**5. Debt**

Debt outstanding at December 31, 2013, was as follows:

	Principal	Interest Rate
Promissory Note	\$44,500	4.155%

The Township issued a promissory note to finance the purchase of a 2013 New Holland T6020-4C Tractor. The tractor collateralized the note.

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

	Promissory Note
Year ending December 31:	
2014	\$9,966
2015	9,966
2016	9,966
2017	9,966
2018	9,966
Total	\$49,830

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**6. Retirement Systems**

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 2013 and 2012, 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, 2013.

**7. Risk Management**

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

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

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2013, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2013 and 2012 (the latest information available):

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**7. Risk Management (Continued)**

	<u>2013</u>	<u>2012</u>
Assets	\$34,954,286	\$34,771,270
Liabilities	8,486,363	9,355,082
Net Position	\$26,467,923	\$25,416,188

At December 31, 2013 and 2012, respectively, the liabilities above include approximately \$7.9 and \$8.7 million of estimated incurred claims payable. The assets above also include approximately \$7.4 and \$7.8 million of unpaid claims to be billed to approximately 948 member governments in the future, as of December 31, 2013 and 2012, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2013, 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>2013</u>	<u>2012</u>
\$8,108	\$7,231

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 AUDITOR'S 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 in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Somerset Township, Belmont County, Ohio (the Township), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated July 7, 2014, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

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

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings that we consider significant deficiencies in internal control. We consider findings 2013-003 through 2013-005 to be significant deficiencies.

***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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2013-001 and 2013-002.

***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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

July 7, 2014

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2013-001**

**Noncompliance**

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

We noted the following instances where expenditures exceeded appropriations at December 31, 2013:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General	\$142,656	\$158,670	(\$16,014)
Road and Bridge	140,595	175,930	(35,335)
Special Levy - Fire	28,120	47,823	(19,703)
Miscellaneous Special Revenue	2,063	4,776	(2,713)

We noted the following instances where expenditures exceeded appropriations at December 31, 2012:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
General	\$139,539	\$152,644	(\$13,105)
Cemetery - Union	0	2,283	(2,283)
Special Levy - Fire	27,235	37,055	(9,820)
Miscellaneous Special Revenue	3,378	4,900	(1,522)

The majority of these variances resulted from the posting of audit adjustments necessary to agree legislatively-approved appropriations to amounts posted to the appropriations ledger.

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, 2013 AND 2012  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2013-002**

**Noncompliance**

Ohio Rev. Code §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, 2013 AND 2012  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2013-002 (Continued)**

**Noncompliance - Ohio Rev. Code §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 22% and 33% of transactions tested for 2013 and 2012, 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.

**FINDING NUMBER 2013-003**

**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 2014) provides suggested account classifications. These accounts classify receipts by fund and source (property taxes or intergovernmental revenue, for example). Using this classification 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 2013, the Township acquired new debt in the amount of \$44,500 for the purchase of a 2013 New Holland T6020-4C Tractor. The Township recorded the note proceeds in the General Fund as a "miscellaneous receipt"; however the account classification suggested is "sale of notes".

This material adjustment with which the Township officials' agree is reflected in the accompanying financial statements.

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

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2013-004**

**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:

<u>Estimated Receipts</u>			
2013			
Fund	<u>Amount per Last Amended Certificates</u>	<u>Amounts Posted to the Accounting System</u>	<u>Variance</u>
General	\$150,977	\$161,020	\$10,043
Motor Vehicle License Tax	19,000	19,439	439
Gasoline Tax	87,000	86,972	(28)
Road and Bridge	127,765	173,765	46,000
Special Levy - Fire	44,000	48,067	4,067
FEMA	0	6,776	6,776
<u>Estimated Receipts</u>			
2012			
Fund	<u>Amount per Last Amended Certificates</u>	<u>Amounts Posted to the Accounting System</u>	<u>Variance</u>
General	\$150,428	\$132,992	(\$17,436)
Gasoline Tax	86,000	87,000	1,000
Special Levy - Fire	27,000	37,000	10,000
FEMA	0	1,590	1,590

The Fiscal Officer also did not properly 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:

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2013-004 (Continued)**

**Significant Deficiency – (Continued)**

<u>Appropriations</u>			
	2013		
	<u>Amount per Last</u>	<u>Amounts Posted to</u>	
<u>Fund</u>	<u>Appropriation Resolution</u>	<u>the Accounting System</u>	<u>Variance</u>
General	\$142,656	\$188,156	(\$45,500)
Road and Bridge	140,595	205,360	(64,765)
Special Levy - Fire	28,120	48,187	(20,067)
FEMA	2,063	8,839	(6,776)
<u>Appropriations</u>			
	2012		
	<u>Amount per Last</u>	<u>Amounts Posted to</u>	
<u>Fund</u>	<u>Appropriation Resolution</u>	<u>the Accounting System</u>	<u>Variance</u>
General	\$139,539	\$168,061	(\$28,522)
Motor Vehicle License Tax	20,906	21,906	(1,000)
Cemetery - Union	0	1,396	(1,396)
Special Levy - Fire	27,235	37,235	(10,000)
FEMA	3,378	4,968	(1,590)

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.

**SOMERSET TOWNSHIP  
BELMONT COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2013-005**

**Significant Deficiency**

The bank reconciliations prepared as of December 31, 2013 and 2012 included 'other adjusting factors' of \$2,111 and \$887, respectively, which were the accumulation of several fund balance adjustments which were made by the Township's Fiscal Officer for investment activity of the Township which should not have been made. There was also no documentation of the governing board review of the bank reconciliations.

As a result, fund balances as of December 31, 2013 and 2012 were being reported as less than the actual available cash by \$3,556 and \$887, respectively. Fund balance adjustments have been posted by audit by those amounts and reflected in the Township's financial statements. The Township's Fiscal Officer corrected the Township's fund balance activity by recording a receipt in the amount of \$3,556 on February 18, 2014; thus, increasing the overall fund balance by that amount. The Township is currently reconciled as of April 30, 2014 without 'any adjusting factors'.

Reconciling cash is a critical control in assuring all transactions are posted accurately and timely. Improperly making cash fund balance adjustments can result in inaccurate fund cash balance information, and conceivably could cause deficit spending. The Township's small size requires governing board involvement with critical accounting processes (such as bank reconciliation) to compensate for the inability to segregate these duties. The absence of these reviews may be a material weakness in internal accounting control, resulting in inaccurate cash balances, or even undetected theft.

We recommend the Township's Fiscal Officer prepare monthly bank reconciliations and present the monthly bank reconciliations to the Board of Township Trustees for their review and approval at their monthly meetings. We also recommend not making any fund balance adjustments unless instructed for audit purposes.

**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, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2011-01	Ohio Rev. Code Section 5705.41(B) – expenditures exceeded appropriations in several funds at the legal level of control.	No	Not Corrected: Repeated as Finding No. 2013-001.
2011-02	Ohio Rev. Code Section 5705.41(D)(1) – not always obtaining certification of availability of funds prior to incurring an obligation.	No	Not Corrected: Repeated as Finding No. 2013-002.
2011-03	Not always properly posting estimated receipts and appropriations within the accounting system.	No	Not Corrected: Repeated as Finding No. 2013-004.
2011-04	Not always posting receipts and disbursements to accurate classification codes.	No	Not Corrected: Repeated as Finding No. 2013-003.

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# 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  
JULY 31, 2014**