

SOUTHINGTON TOWNSHIP

TRUMBULL COUNTY

Audit Report

For the Years Ended December 31, 2014 and 2013



Dave Yost • Auditor of State

Board of Trustees
Southington Township
3419 State Route 534
Southington, Ohio 44470

We have reviewed the *Independent Auditors' Report* of Southington Township, Trumbull County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2013 through December 31, 2014. 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. Southington 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

November 9, 2015

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**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

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INDEPENDENT AUDITORS' REPORT

Southington Township
Trumbull County
3419 State Route 534
Southington, Ohio 44470

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Southington Township, Trumbull County, (the Township) as of and for the years ended December 31, 2014 and 2013.

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 opinions.

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

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

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Township does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2014 and 2013, 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 Southington Township, Trumbull County as of December 31, 2014 and 2013, 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 30, 2015, 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.



Charles E. Harris & Associates, Inc.
July 30, 2015

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$28,492	\$147,470	\$40,599	\$0	\$216,561
Charges for Services	0	30,998	0	0	30,998
Licenses, Permits and Fees	30,581	0	0	0	30,581
Intergovernmental	63,809	118,845	0	0	182,654
Earnings on Investments	0	45	0	0	45
Miscellaneous	4,003	22,749	0	0	26,752
<i>Total Cash Receipts</i>	<u>126,885</u>	<u>320,107</u>	<u>40,599</u>	<u>0</u>	<u>487,591</u>
Cash Disbursements					
Current:					
General Government	133,016	0	0	0	133,016
Public Safety	0	104,580	0	0	104,580
Public Works	2,194	193,707	0	0	195,901
Health	7,947	12,835	0	0	20,782
Capital Outlay	24,329	0	0	0	24,329
Debt Service:					
Principal Retirement	0	30,541	38,144	0	68,685
Interest and Fiscal Charges	0	1,539	2,455	0	3,994
<i>Total Cash Disbursements</i>	<u>167,486</u>	<u>343,202</u>	<u>40,599</u>	<u>0</u>	<u>551,287</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(40,601)	(23,095)	0	0	(63,696)
Other Financing Receipts (Disbursements)					
Transfers In	0	3,200	0	0	3,200
Transfers Out	(3,200)	0	0	0	(3,200)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(3,200)</u>	<u>3,200</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	(43,801)	(19,895)	0	0	(63,696)
<i>Fund Cash Balances, January 1</i>	<u>80,291</u>	<u>233,171</u>	<u>20,923</u>	<u>224</u>	<u>334,609</u>
Fund Cash Balances, December 31					
Restricted	0	213,276	20,923	224	234,423
Assigned	222	0	0	0	222
Unassigned	36,268	0	0	0	36,268
<i>Fund Cash Balances, December 31</i>	<u>\$36,490</u>	<u>\$213,276</u>	<u>\$20,923</u>	<u>\$224</u>	<u>\$270,913</u>

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

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

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

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$28,695	\$146,637	\$41,771	\$0	\$217,103
Charges for Services	0	36,732	0	0	36,732
Licenses, Permits and Fees	30,428	0	0	0	30,428
Intergovernmental	65,661	207,626	0	0	273,287
Miscellaneous	8,573	9,690	0	0	18,263
<i>Total Cash Receipts</i>	<u>133,357</u>	<u>400,685</u>	<u>41,771</u>	<u>0</u>	<u>575,813</u>
Cash Disbursements					
Current:					
General Government	147,805	0	0	0	147,805
Public Safety	0	224,972	0	0	224,972
Public Works	2,067	173,128	0	0	175,195
Health	7,918	14,199	0	0	22,117
Capital Outlay	65,464	0	0	0	65,464
Debt Service:					
Principal Retirement	0	14,756	36,942	0	51,698
Interest and Fiscal Charges	0	1,416	4,829	0	6,245
<i>Total Cash Disbursements</i>	<u>223,254</u>	<u>428,471</u>	<u>41,771</u>	<u>0</u>	<u>693,496</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(89,897)	(27,786)	0	0	(117,683)
Other Financing Receipts (Disbursements)					
Transfers In	0	3,000	0	0	3,000
Transfers Out	(3,000)	0	0	0	(3,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(3,000)</u>	<u>3,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	(92,897)	(24,786)	0	0	(117,683)
<i>Fund Cash Balances, January 1</i>	<u>173,188</u>	<u>257,957</u>	<u>20,923</u>	<u>224</u>	<u>452,292</u>
Fund Cash Balances, December 31					
Restricted	0	233,171	20,923	224	254,318
Assigned	35,498	0	0	0	35,498
Unassigned	44,793	0	0	0	44,793
<i>Fund Cash Balances, December 31</i>	<u><u>\$80,291</u></u>	<u><u>\$233,171</u></u>	<u><u>\$20,923</u></u>	<u><u>\$224</u></u>	<u><u>\$334,609</u></u>

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

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Southington Township, Trumbull 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 participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. 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.

The Township is associated with the Southington Water District which is defined as a related organization. This organization is discussed in Note 8 to the basic financial statements.

B. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

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

The Township values U.S. Treasury Notes and common stock at cost. Money market mutual funds are recorded at share values the mutual funds report.

D. Fund Accounting

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

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. Summary of Significant Accounting Policies (continued)

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.

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

Fire EMS (Paramedics) – This fund receives money collected from EMS runs for fire protection and emergency.

3. Debt Service Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Township had the following significant Debt Service Fund:

Debt Retirement Fund – This fund receives property money which is used to pay any debt incurred by the Township.

4. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Township's Capital Projects fund is restricted to capital expenditures.

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. Unencumbered appropriations lapse at year end.

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. Summary of Significant Accounting Policies (continued)

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2014 and 2013 budgetary activity appears in Note 3.

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

4. Assigned

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

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. Summary of Significant Accounting Policies (continued)

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.

2. Equity in Pooled Deposits and Investments

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

	<u>2014</u>		<u>2013</u>
Demand Deposits	\$ 65,588	\$	128,607
Money Market Savings	203,825		204,502
US Treasury Notes	1,500		1,500
	<u>\$ 270,913</u>	\$	<u>334,609</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Township or collateralized by the financial institution's public entity deposit pool.

Investments: The Federal Reserve holds the Township's U.S. Treasury Notes in book-entry form by, in the name of the Township's financial institution. The financial institution maintains records identifying the Township as owner of these securities.

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$119,586	\$126,885	\$7,299
Special Revenue	318,763	323,307	4,544
Debt Service	40,599	40,599	0
Capital Projects	0	0	0

2014 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$147,778	\$170,908	(\$23,130)
Special Revenue	550,423	343,202	207,221
Debt Service	61,522	40,599	20,923
Capital Projects	224	0	224

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$124,262	\$133,357	\$9,095
Special Revenue	390,505	407,031	16,526
Debt Service	41,771	41,771	0
Capital Projects	0	0	0

2013 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$266,301	\$261,752	\$4,549
Special Revenue	544,592	428,471	116,121
Debt Service	62,694	41,771	20,923
Capital Projects	224	0	224

Contrary to Ohio Revised Code section 5705.41(D)(1), the Township had numerous certifications of disbursements after the invoice dates.

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(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.

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, 2014 was as follows:

	<u>Principal</u>	Interest Rate
General Obligation Note – Town Hall Basement	\$23,232	4.986%
Promissory Note –Squad Car	<u>15,139</u>	4.723%
	<u>\$38,371</u>	

The General Obligation Notes were issued to finance the remodeling of the Town Hall basement. The Township’s taxing authority collateralized the notes. The promissory note was issued for the purchase of a squad car for the fire department. The Township’s taxing authority collateralized the notes.

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

	General Obligation <u>Note</u>	Promissory <u>Note</u>
Year ending Dec. 31, 2015	\$24,429	\$15,864

6. Retirement Systems

The Township’s employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans’ benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, 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, 2014.

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

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), 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, 2014, 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 2014.

	<u>2013</u>	<u>2014</u>
Assets	\$34,954,286	\$35,970,263
Liabilities	8,486,363	8,912,432
Net Position	\$26,467,923	\$27,057,831

At December 31, 2013 and 2014, respectively, the liabilities above include approximately \$7.9 and \$8.2 million of estimated incurred claims payable. The assets above also include approximately \$7.4 and \$7.2 million of unpaid claims to be billed to approximately 957 member governments in the future, as of December 31, 2013 and 2014, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Township's share of these unpaid claims collectible in future years is approximately \$4,900.

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

7. Risk Management (continued)

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>2014</u>
\$9,422	\$9,487

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. Related Organization

The Southington Water District is a distinct political subdivision of the State of Ohio created under Chapter 6119 of the Ohio Revised Code. The District is governed by a Board of Trustees initially appointed by the Township. However, the District's Board of Trustees possess their own right to operate the District as it sees fit, without any authority of the Township. Beginning in early 2009, the Township established a \$1,000 per month loan to the District for start-up costs. The Township loaned \$12,000 in each year in 2013 and 2014.

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Charles E. Harris & Associates, Inc
Certified Public Accountants

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

Southington Township
Trumbull County
3419 State Route 534
Southington, Ohio 44470

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 Southington Township, Trumbull County, (the Township) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated July 30, 2015 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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 findings, we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses.

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. 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. We consider findings 2014-001 and 002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2014-003.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated July 30, 2015.

Township's Response to Findings

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



Charles E. Harris & Associates, Inc.
July 30, 2015

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013**

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

FINDING NUMBER 2014-001

Material Weakness

Bank Reconciliation

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. Bank reconciliation means accounting for the differences between the balance on the bank statements and the cash and investment balances according to the entity's records at a specific point in time.

In 2013 and 2014, the Township did not fully reconcile the balance of the bank and the balance of cash in the accounting records. The primary causes of the unreconciled difference were payments not recorded in the books for loan payments, BWC premium, bank fees, taxes and internet fees. There were also certain deposits that were not recorded for interest earnings and EFT deposits from the county. Also, certain deposits that did not clear the bank were posted.

Without complete and accurate monthly bank reconciliations, the Township's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by the Township's management. In addition, the Township's management is not provided with timely fiscal information that is vital to the continued operation, budgeting and decision making process of the Township.

The Township should prepare accurate monthly bank reconciliations in a timely manner. All unreconciled differences should be resolved and appropriately documented as quickly as possible so they are not carried forward from month to month.

Management Response:

Management will perform bank reconciliations on a regular basis.

FINDING NUMBER 2014-002

Material Weakness

Audit Adjustments

During 2014 and 2013, the Township erroneously recorded numerous transactions. The more significant adjustments are as follows:

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS – (continued)
DECEMBER 31, 2014 AND 2013**

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

FINDING NUMBER 2014-002 – (continued)

- Recorded insurance rebate, refund of premium as other financing sources instead of miscellaneous revenue
- Recorded franchise fees as all other revenues instead of fines, licenses and permit.
- Recorded scrap tire grant revenue as all other revenue instead of intergovernmental revenue
- Recorded sale of cemetery lots as fees and other financing sources instead of miscellaneous revenue.
- Recorded debt payments (interest and principal) in the incorrect funds
- Failed to record several debt payments made by electronic fund transfer (EFT) in the Township's books.
- Recorded 2011 refunds of overpayment as property tax instead of miscellaneous revenues (all other revenue)
- Recorded an expendable trust for the cemetery as Permanent fund rather than Special Revenue fund.

Adjustments were made in the financial statements and the Township's records to reflect the proper presentation.

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

We recommend that the Township refer to the Ohio Township Handbook and OTAS manual to properly classify its transactions. We also recommend the Fiscal Officer review all reports compiled by the computer software company to ensure their accuracy.

Management Response:

I will ensure that all transactions are posted correctly in the future.

FINDING NUMBER 2014-003

Noncompliance

Certification of Expenditures

Ohio Rev. Code Section 5705.41 (D) (1) prohibits a subdivision or taxing entity from making a contract or ordering any expenditure of money unless a certificate signed by a 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.

**SOUTHINGTON TOWNSHIP
TRUMBULL COUNTY**

**SCHEDULE OF FINDINGS – (continued)
DECEMBER 31, 2014 AND 2013**

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

FINDING NUMBER 2014-003 – (continued)

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 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.

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

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution 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.

2. Blanket Certificates - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution adopted by a majority of members of the legislative authority against any specific line item amount 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.

3. Super Blanket Certificates – The Township may also make expenditures and contracts for any amount for a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most profession 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.

The Township did not make the proper certification of funds in all instances. Nine transactions did not have signed purchase orders and one did not have an invoice. Sixteen of 41 transactions tested had the certifications after the obligation date during the audit period. Alternate procedures were performed for the transaction with the missing invoice. We recommend that the Township institute the use of purchase orders for any expenditure to be made and certify expenditures prior to incurring the liability. In instances where prior certification is not practical, we recommend the issuance of a "Then and Now" certificate.

Management Response:

Management will ensure that purchase orders are completed prior to purchasing goods or services.



Dave Yost • Auditor of State

SOUTHINGTON TOWNSHIP

TRUMBULL 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
NOVEMBER 19, 2015**