

Vernon Township
Scioto County
Regular Audit
For the Years Ended December 31, 2017 and 2016



Millhuff-Stang, CPA, Inc.
1428 Gallia Street / Portsmouth, Ohio 45662 / Phone: 740.876.8548
45 West Second Street, Suite D / Chillicothe, Ohio 45601 / Phone: 740.851.4978
Fax: 888.876.8549
natalie@millhuffstangcpa.com / roush@millhuffstangcpa.com
www.millhuffstangcpa.com



Dave Yost • Auditor of State

Board of Trustees
Vernon Township
5924 Lick Run Lyra Road
Wheelersburg, Ohio 45694

We have reviewed the *Independent Auditor's Report* of the Vernon Township, Scioto County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2016 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Vernon 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

August 22, 2018

This page intentionally left blank.

Vernon Township
Scioto County
Table of Contents
For the Years Ended December 31, 2017 and 2016

| Title | Page |
|--|------|
| Independent Auditor’s Report..... | 1 |
| Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2017 | 4 |
| Notes to the Financial Statements –For the Year Ended December 31, 2017..... | 5 |
| Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2016 | 11 |
| Notes to the Financial Statements – For the Year Ended December 31, 2016..... | 12 |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 18 |
| Schedule of Findings and Responses | 20 |
| Schedule of Prior Audit Findings..... | 22 |

This page intentionally left blank.

Independent Auditor's Report

Board of Trustees
Vernon Township
Scioto County
5924 Lick Run Lyra Road
Wheelersburg, Ohio 45694

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Vernon Township, Scioto County, (the Township) as of and for the years ended December 31, 2017 and 2016.

Management's Responsibility for the Financial Statements

Management is responsible for 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 such 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 2 of the financial statements, the Township has 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, 2017 and 2016, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of Vernon Township, Scioto County, as of December 31, 2017 and 2016, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2018, 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 the effectiveness of the Township's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

Vernon Township
Scioto County
Independent Auditor's Report
Page 3

A handwritten signature in black ink that reads "Natalie Millhuff-Stang". The signature is written in a cursive, flowing style.

Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

June 1, 2018

This page intentionally left blank.

Vernon Township
Scioto County
Combined Statement of Cash Receipts, Cash Disbursements and
Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2017

| | Governmental Fund Types | | Totals (Memorandum Only) |
|--|-------------------------|--------------------|--------------------------------|
| | General | Special Revenue | |
| Cash Receipts: | | | |
| Property and Other Local Taxes | \$43,530 | \$327,859 | \$371,389 |
| Licenses, Permits, and Fees | 8,710 | 0 | 8,710 |
| Intergovernmental | 44,310 | 130,767 | 175,077 |
| Earnings on Investments | 2,097 | 96 | 2,193 |
| Miscellaneous | 6,730 | 6,691 | 13,421 |
| Total Cash Receipts | 105,377 | 465,413 | 570,790 |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 49,830 | 758 | 50,588 |
| Public Safety | 263 | 191,761 | 192,024 |
| Public Works | 0 | 158,658 | 158,658 |
| Health | 18,265 | 674 | 18,939 |
| Human Services | 1,298 | 0 | 1,298 |
| Conservation and Recreation | 1,686 | 1,215 | 2,901 |
| Capital Outlay | 0 | 32,909 | 32,909 |
| Debt Service: | | | |
| Redemption of Principal | 0 | 19,996 | 19,996 |
| Interest and Other Fiscal Charges | 0 | 5,839 | 5,839 |
| Total Cash Disbursements | 71,342 | 411,810 | 483,152 |
| Total Cash Receipts Over Cash Disbursements | 34,035 | 53,603 | 87,638 |
| Fund Cash Balances, January 1 | 53,698 | 291,920 | 345,618 |
| Restricted for: | | | |
| Cemetery | 0 | 17,497 | 17,497 |
| Emergency Medical Service | 0 | 880 | 880 |
| Fire Operations | 0 | 278,838 | 278,838 |
| Recreation Program | 0 | 200 | 200 |
| Road and Bridge Maintenance and Improvements | 0 | 22,160 | 22,160 |
| Committed | 0 | 25,948 | 25,948 |
| Assigned for future year appropriations | 10,174 | 0 | 10,174 |
| Unassigned | 77,559 | 0 | 77,559 |
| Fund Cash Balances, December 31 | \$87,733 | \$345,523 | \$433,256 |

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

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Vernon Township, Scioto 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, and fire protection. The Township contracts with the Vernon Township Rescue and Emergency Co. to provide ambulance services.

The Township participates in a public entity risk pool. Note 8 to the financial statements provides additional information for this entity. This organization is the Ohio Township Association Risk Management Authority (OTARMA). This is a risk sharing pool available to all townships for property and casualty insurance coverage.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Basis of Accounting

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

Deposits

The Township maintains its deposits pool in an interest-bearing checking account with a local commercial bank.

Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

General Fund – The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds – These funds account for and report the proceeds of specific revenue sources that are restricted 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.

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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

Fire Special Levy Fund - This fund receives property tax money for providing fire protection to the residents of the Township.

Ambulance Special Levy Fund - This fund receives property tax money to provide ambulatory services to the residents of the Township.

Budgetary Process

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

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.

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.

Encumbrances – The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are cancelled and re-appropriated in the subsequent year.

A summary of the 2017 budgetary activity appears in Note 4.

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 the resources in the governmental funds. The classifications are as follows:

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

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

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

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

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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.

Capital Assets

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

Note 3 – Deposits

The Township maintains a deposits pool all funds use. The Ohio Revised Code prescribes allowable deposits. The carrying amount of deposits at December 31, 2017 was as follows:

Demand Deposits \$433,256

Deposits – Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution’s public entity deposit pool. The financial institution is in the process of joining the Ohio Pooled Collateral System (OPCS); however, at December 31, 2017, the financial institution still maintained its own collateral pool.

Note 4 – Budgetary Activity

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

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|-----------------|
| General | \$66,652 | \$105,377 | \$38,725 |
| Special Revenue | 411,957 | 465,413 | 53,456 |
| Total | <u>\$478,609</u> | <u>\$570,790</u> | <u>\$92,181</u> |

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|------------------|
| General | \$120,350 | \$71,342 | \$49,008 |
| Special Revenue | 720,544 | 411,810 | 308,734 |
| Total | <u>\$840,894</u> | <u>\$483,152</u> | <u>\$357,742</u> |

Note 5 – Property Taxes

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

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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.

Note 6 – Debt

Debt outstanding at December 31, 2017 was as follows:

| | Principal | Interest Rate |
|--------------------------------|-----------|---------------|
| 2015 Fire Truck Lease Purchase | \$114,951 | 3.69% |
| 2016 Truck Lease Purchase | 19,250 | 4.73% |
| Total | \$134,201 | |

On January 19, 2015, the Township entered into a lease/purchase agreement in the amount of \$155,962 to finance the purchase of a fire truck.

On December 17, 2016, the Township entered into a lease/purchase agreement in the amount of \$25,077 to finance the purchase of a truck.

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

| Year Ending December 31: | Fire Truck | Truck |
|-----------------------------|------------|----------|
| 2018 | \$18,933 | \$6,902 |
| 2019 | 18,933 | 6,902 |
| 2020 | 18,933 | 6,903 |
| 2021 | 18,933 | 0 |
| 2022 | 18,933 | 0 |
| 2023-2024 | 37,866 | 0 |
| Total | \$132,531 | \$20,707 |

Note 7 – Defined Benefit Pension Plan and Postemployment Benefits

Ohio Public Employees Retirement System

The Township’s employees and officials 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 2017, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants’ gross salaries. The Township has paid all contributions required through December 31, 2017.

Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributed 2 percent of the employer contribution to fund these benefits during calendar year 2016 and 1 percent during calendar year 2017.

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 8 – 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, 2017, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2017:

| | |
|--------------|---------------------|
| | <u>2017</u> |
| Assets | \$40,010,732 |
| Liabilities | <u>8,675,465</u> |
| Net Position | <u>\$31,335,267</u> |

At December 31, 2017, the liabilities above include approximately \$8.0 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,016 member governments in the future, as of December 31, 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Township’s share of these unpaid claims collectible in future years is approximately \$8,000.

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.

| |
|----------------------------|
| Contributions to OTARMA |
| <u>2017</u> |
| \$17,614 |

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2017

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 9 – Contingent Liabilities

Grants

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.

Litigation

The Township is not currently party to legal proceedings.

Note 10 – Compliance

The Township had expenditures in excess of appropriations in 2017 which is contrary to Ohio Revised Code Section 5705.41(B).

The Township had appropriations in excess of available and estimated resources in 2017 which is contrary to Ohio Revised Code Sections 5705.36(A)(2) and 5705.39, respectively.

Vernon Township
Scioto County
Combined Statement of Cash Receipts, Cash Disbursements and
Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2016

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|---|--------------------------------|--------------------|--------------------------------|
| | General | Special Revenue | |
| Cash Receipts: | | | |
| Property and Other Local Taxes | \$38,791 | \$283,369 | \$322,160 |
| Licenses, Permits, and Fees | 9,186 | 0 | 9,186 |
| Intergovernmental | 27,070 | 130,312 | 157,382 |
| Earnings on Investments | 1,778 | 215 | 1,993 |
| Miscellaneous | 4,779 | 18,830 | 23,609 |
| Total Cash Receipts | 81,604 | 432,726 | 514,330 |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 59,995 | 2,389 | 62,384 |
| Public Safety | 60 | 194,221 | 194,281 |
| Public Works | 0 | 140,021 | 140,021 |
| Health | 18,528 | 0 | 18,528 |
| Human Services | 993 | 0 | 993 |
| Conservation/Recreation | 1,794 | 231 | 2,025 |
| Capital Outlay | 0 | 68,157 | 68,157 |
| Debt Service: | | | |
| Redemption of Principal | 0 | 13,664 | 13,664 |
| Interest and Other Fiscal Charges | 0 | 5,269 | 5,269 |
| Total Cash Disbursements | 81,370 | 423,952 | 505,322 |
| Total Cash Receipts Over Cash Disbursements | 234 | 8,774 | 9,008 |
| Other Financing Receipts: | | | |
| Proceeds from Debt | 0 | 25,077 | 25,077 |
| Total Other Financing Receipts | 0 | 25,077 | 25,077 |
| Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements | 234 | 33,851 | 34,085 |
| Fund Cash Balances, January 1 - Restated | 53,464 | 258,069 | 311,533 |
| Restricted for: | | | |
| Cemetery | 0 | 14,436 | 14,436 |
| Emergency Medical Service | 0 | 918 | 918 |
| Fire Operations | 0 | 219,831 | 219,831 |
| Recreation Program | 0 | 1,215 | 1,215 |
| Road and Bridge Maintenance and Improvements | 0 | 29,516 | 29,516 |
| Committed | 0 | 26,004 | 26,004 |
| Assigned for future year appropriations | 14,973 | 0 | 14,973 |
| Unassigned | 38,725 | 0 | 38,725 |
| Fund Cash Balances, December 31 | \$53,698 | \$291,920 | \$345,618 |

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Vernon Township, Scioto 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, and fire protection. The Township contracts with the Vernon Township Rescue and Emergency Co. to provide ambulance services.

The Township participates in a public entity risk pool. Note 8 to the financial statements provides additional information for this entity. This organization is: Ohio Township Association Risk Management Authority (OTARMA). This is a risk sharing pool available to all Townships for property and casualty insurance coverage.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Basis of Accounting

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

Deposits

The Township maintains its deposits pool in an interest-bearing checking account with a local commercial bank.

Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

General Fund – The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds – These funds account for and report the proceeds of specific revenue sources that are restricted 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.

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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

Fire Special Levy Fund - This fund receives property tax money for providing fire protection to the residents of the Township.

Ambulance Special Levy Fund - This fund receives property tax money to provide ambulatory services to the residents of the Township.

Budgetary Process

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

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.

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.

Encumbrances – The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are cancelled and re-appropriated in the subsequent year.

A summary of the 2016 budgetary activity appears in Note 4.

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 the resources in the governmental funds. The classifications are as follows:

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

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

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

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

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

Capital Assets

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

Note 3 – Deposits

The Township maintains a deposits pool all funds use. The Ohio Revised Code prescribes allowable deposits. The carrying amount of deposits at December 31, 2016 was as follows:

Demand Deposits \$345,618

Deposits – Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution’s public entity deposit pool.

Note 4 – Budgetary Activity

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

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|----------|
| General | \$65,233 | \$81,604 | \$16,371 |
| Special Revenue | 441,212 | 457,803 | 16,591 |
| Total | \$506,445 | \$539,407 | \$32,962 |

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|-----------|
| General | \$118,696 | \$81,370 | \$37,326 |
| Special Revenue | 687,269 | 423,952 | 263,317 |
| Total | \$805,965 | \$505,322 | \$300,643 |

Note 5 – Property Taxes

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

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

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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

Note 6 – Debt

Debt outstanding at December 31, 2016 was as follows:

| | Principal | Interest Rate |
|--------------------------------|-----------|---------------|
| 2015 Fire Truck Lease Purchase | \$129,120 | 3.69% |
| 2016 Truck Lease Purchase | 25,077 | 4.73% |
| Total | \$154,197 | |

On January 19, 2015, the Township entered into a lease/purchase agreement in the amount of \$155,962 to finance the purchase of a fire truck.

On December 17, 2016, the Township entered into a lease/purchase agreement in the amount of \$25,077 to finance the purchase of a truck.

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

| Year Ending December 31: | Fire Truck | Truck |
|-----------------------------|------------|----------|
| 2017 | \$18,933 | \$6,902 |
| 2018 | 18,933 | 6,902 |
| 2019 | 18,933 | 6,902 |
| 2020 | 18,933 | 6,903 |
| 2021 | 18,933 | 0 |
| 2022-2024 | 56,799 | 0 |
| Total | \$151,464 | \$27,609 |

Note 7 – Defined Benefit Pension Plan and Postemployment Benefits

Ohio Public Employees Retirement System

The Township’s employees and officials 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 2016, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants’ gross salaries. The Township has paid all contributions required through December 31, 2016.

Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 8 – 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, 2016, 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, 2016:

| | |
|--------------|---------------------|
| | <u>2016</u> |
| Assets | \$38,473,283 |
| Liabilities | <u>8,244,140</u> |
| Net Position | <u>\$30,229,143</u> |

At December 31, 2016, the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township’s share of these unpaid claims collectable in future years is approximately \$9,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

| |
|----------------------------|
| Contributions to OTARMA |
| <u>2016</u> |
| \$17,039 |

Vernon Township
Scioto County
Notes to the Financial Statements
For the Year Ended December 31, 2016

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 9 – Contingent Liabilities

Grants

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.

Litigation

The Township is not currently party to legal proceedings.

Note 10 – Compliance

The Township had expenditures in excess of appropriations in 2016 which is contrary to Ohio Revised Code Section 5705.41(B).

The Township had appropriations in excess of available resources in 2016 which is contrary to Ohio Revised Code Section 5705.36(A)(2).

The Township did not timely file its annual appropriations measure for 2016 which is contrary to Ohio Revised Code Section 5705.38(A).

Note 11 – Restatement of Beginning Balances

In an attempt to address its low General Fund balance, the Township reviewed General Fund expenditures from prior years and identified a significant payment that could have been paid with road funding and adjusted beginning fund balance accordingly. This adjustment had the following effect on beginning fund balances.

| | General Fund | Special Revenue Funds |
|--|-----------------|-----------------------------|
| Fund Balance, As Reported, December 31, 2015 | \$3,464 | \$308,069 |
| Restatement | 50,000 | (50,000) |
| Fund Balance, As Restated, January 1, 2016 | \$53,464 | \$258,069 |

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Independent Auditor's Report

Board of Trustees
Vernon Township
Scioto County
5924 Lick Run Lyra Road
Wheelersburg, Ohio 45694

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Vernon Township, Scioto County (the Township) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated June 1, 2018, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses as items 2017-001 and 2017-002 that we consider to be material weaknesses.

Vernon Township
Scioto County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2017-003 through 2017-006.

Township's Responses to Findings

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Township's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

June 1, 2018

Vernon Township
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2017 and 2016

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

Finding Number 2017-001

Material Weakness – Financial Reporting

A monitoring system by the Township should be in place to prevent or detect misstatements for the accurate presentation of the Township’s financial statements. During 2017 and 2016, the Township erroneously posted receipts and disbursements to the incorrect accounts, and, in certain instances, funds. These items required reclassifications and adjustments to properly present the activity of the Township for both years. Fund balances were also not properly classified. These errors were corrected in the accompanied financial statements.

We recommend the Township implement additional control procedures related to financial reporting that enable management to identify, prevent, detect, and correct potential misstatements in the financial statements.

Township Response:

The Fiscal Officer will monitor the line item expenditures and consult the documents on debt to record accurately.

Finding Number 2017-002

Material Weakness – Budgetary Information Within Accounting System

Accurate budgetary information within the Township’s accounting system is pertinent to ensure that the Township has accurate and complete information for decision-making processes. Instances were identified in both years of the audit period where budgetary allocations recorded within UAN were not in agreement with the Board-approved documents. The Township should review budgeting and accounting processes and implement the appropriate steps to ensure that budgeted information within the accounting system is in agreement with formal approved documents.

Township Response:

The Fiscal Officer will discuss this with Trustees and take steps to monitor this.

Finding Number 2017-003

Noncompliance Citation – Ohio Revised Code Section 5705.41(B)

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated.

For 2016 appropriations were not filed until March 3, 2016 yet the Township incurred expenses prior to this filing. In addition, the Township had expenditures in excess of appropriations in the Ambulance Fund at December 31, 2017 and 2016. The Township should adopt appropriations and file them with the County Auditor timely. Further, the Township should monitor financial activity to ensure their expenditures do not exceed the amount appropriated.

Township Response:

The Fiscal Officer will monitor this closely.

Vernon Township
Scioto County
Schedule of Findings and Responses
For the Years Ended December 31, 2017 and 2016

Finding Number 2017-004

Noncompliance Citation – Ohio Revised Code Section 5705.36(A)(2)

Ohio Revised Code Section 5705.36(A)(2) allows subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. The Township had appropriations in excess of available resources in 2016 and 2017. The condition put the Township at risk of overspending without sufficient available funds. The Township should implement additional monitoring procedures to ensure the appropriations are within available resources and that reduced amended certificates, and related reductions in appropriations, are obtained when appropriate.

Township Response:

It was corrected in 2017. Year 2016 was the previous Fiscal Officer. The Fiscal Officer will continue to have the appropriation measures passed when required.

Finding Number 2017-005

Noncompliance Citation – Ohio Revised Code Section 5705.39

Ohio Revised Code Section 5705.39 states in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. The Township's appropriations exceeded estimated resources in the Gasoline Tax Fund at December 31, 2017. The Township should implement the appropriate procedures to assure that appropriations do not exceed the amount of estimated resources.

Township Response:

The Fiscal Officer will monitor this closely to prevent it happening again.

Finding Number 2017-006

Noncompliance Citation – Ohio Revised Code Section 5705.38(A)

5705.38(A) requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1. This does not apply to school district appropriations.

For 2016, the Township did not pass a temporary appropriation and did not pass the permanent appropriation until March 3, 2016. The Township should adopt a resolution approving the annual appropriations before the required date.

Township Response:

This was the previous fiscal officer. It was corrected in 2017. The Fiscal Officer will continue to have the temporary passed in the future years.

**Vernon Township
Scioto County**

*Schedule of Prior Audit Findings
For the Years Ended December 31, 2017 and 2016*

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|------------------|--|------------------|--|
| Finding 2015-001 | Material Weakness – Financial Reporting | No | Reissued as Finding 2017-001 |
| Finding 2015-002 | Material Weakness – Budgetary Information Within Accounting System | No | Reissued as Finding 2017-002 |
| Finding 2015-003 | Noncompliance Citation – Ohio Revised Code Section 5705.41(D) | No | Reissued as in management letter |
| Finding 2015-004 | Noncompliance Citation – Ohio Revised Code Section 5705.36(A)(2) | No | Reissued as Finding 2017-004 |
| Finding 2015-005 | Noncompliance Citation – Ohio Revised Code Section 5705.39 | No | Reissued as Finding 2017-005 |
| Finding 2015-006 | Noncompliance Citation – Ohio Revised Code Section 505.24 and 507.29 | Yes | |

This page intentionally left blank.



Dave Yost • Auditor of State

VERNON TOWNSHIP

SCIOTO 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
SEPTEMBER 4, 2018**