



Dave Yost • Auditor of State



**SAGAMORE HILLS TOWNSHIP  
SUMMIT COUNTY**

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## INDEPENDENT AUDITOR'S REPORT

Sagamore Hills Township  
Summit County  
11551 Valley View Road  
Sagamore Hills, Ohio 44067-1099

To the Board of Trustees:

### ***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 Sagamore Hills Township, Summit County, Ohio (the Township) as of and for the years ended December 31, 2019 and 2018.

### ***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 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, 2019 and 2018, and the respective 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 Sagamore Hills Township, Summit County as of December 31, 2019 and 2018, 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.

***Emphasis of a Matter***

As discussed in 2018 - Note 12 to the financial statements, the Township incurred a net loss due to a cybersecurity breach with the impact of the loss recognized in the financial statements as a Non-Operating Loss (Net of Recovery). We did not modify our opinion regarding this matter.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2020 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.



Keith Faber  
Auditor of State

Columbus, Ohio  
September 9, 2020

**Sagamore Hills Township**  
Summit County, Ohio  
*Combined Statement of Receipts, Disbursements  
and Changes in Fund Balances (Cash Basis)  
All Governmental Fund Types  
For the Year Ended December 31, 2019*

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$459,393	\$2,972,906	\$3,432,299
Charges for Services	275	263,355	263,630
Licenses, Permits and Fees	38,966	2,928	41,894
Intergovernmental	734,267	734,374	1,468,641
Special Assessments	550	0	550
Earnings on Investments	11,954	345	12,299
Miscellaneous	47,768	7,907	55,675
<i>Total Cash Receipts</i>	<u>1,293,173</u>	<u>3,981,815</u>	<u>5,274,988</u>
<b>Cash Disbursements</b>			
Current:			
General Government	497,294	63,022	560,316
Public Safety	130,503	2,346,649	2,477,152
Public Works	12,312	711,467	723,779
Health	154,937	0	154,937
Conservation-Recreation	5,922	0	5,922
Capital Outlay	98,358	496,105	594,463
Debt Service:			
Principal Retirement	0	7,750	7,750
<i>Total Cash Disbursements</i>	<u>899,326</u>	<u>3,624,993</u>	<u>4,524,319</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>393,847</u>	<u>356,822</u>	<u>750,669</u>
<b>Other Financing Receipts (Disbursements)</b>			
Sale of Capital Assets	15,000	10,049	25,049
Transfers In	0	200,000	200,000
Transfers Out	(200,000)	0	(200,000)
Advances In	218,423	0	218,423
Advances Out	0	(218,423)	(218,423)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>33,423</u>	<u>(8,374)</u>	<u>25,049</u>
<i>Net Change in Fund Cash Balances</i>	427,270	348,448	775,718
<i>Fund Cash Balances, January 1</i>	<u>3,053,443</u>	<u>2,372,260</u>	<u>5,425,703</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	0	2,720,708	2,720,708
Assigned	1,997,373	0	1,997,373
Unassigned (Deficit)	1,483,340	0	1,483,340
<i>Fund Cash Balances, December 31</i>	<u>\$3,480,713</u>	<u>\$2,720,708</u>	<u>\$6,201,421</u>

See accompanying notes to the basic financial statements

**Sagamore Hills Township**  
*Summit County, Ohio*  
*Combined Statement of Receipts, Disbursements*  
*and Changes in Fund Balances (Regulatory Cash Basis)*  
*Fiduciary Fund Type*  
*For the Year Ended December 31, 2019*

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	<u>Custodial</u>
<b>Operating Cash Receipts</b>	
Licenses, Permits and Fees	<u>\$21,275</u>
<i>Operating Cash Disbursements</i>	<u>0</u>
<i>Operating Income (Loss)</i>	<u>21,275</u>
<b>Non-Operating Receipts (Disbursements)</b>	
Other Financing Uses	<u>(3,775)</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(3,775)</u>
<i>Net Change in Fund Cash Balances</i>	17,500
<i>Fund Cash Balances, January 1</i>	<u>8,875</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$26,375</u></u>
<i>See accompanying notes to the basic financial statements</i>	



**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 1 – Reporting Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Sagamore Hills Township, Summit County, Sagamore Hills 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 police protection. The Township contracts with the City of Macedonia to provide fire services and emergency medical services to provide ambulance services.

***Jointly Governed Organizations***

The Township participates in the jointly governed organizations listed below. Note 11 to the financial statements provides additional information for these entities.

- North Hills Water District was established to provide for the construction and maintenance of water transmission lines to residents of Northfield Center Township and Sagamore Hills Township.
- Summit County Regional Planning Commission was established to advise municipalities and local governments in Summit County on planning, development, and zoning issues.
- Cuyahoga Valley Regional Council of Governments was established for municipalities, township, school districts, and park systems located in the Cuyahoga Valley to facilitate communication between the parks and local governments concerning zoning and other land issues.
- Village of Walton Hills and Sagamore Hills Township Joint Economic Development District (JEDD) was established to collect income tax revenue in order to facilitate economic development and to create and preserve jobs and employment opportunities within the JEDD area.
- Northeast Ohio Regional Sewer District provides Community Cost Share Reimbursement Funds upon completion of projects that benefit the maintenance and upkeep of sewer systems in the Township. These funds are generated from the collection of sewer charges from the residents of the Township.

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, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***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

***Road and Bridge Fund*** This fund receives property tax and intergovernmental revenue money for the construction, maintenance and repair of Township roads and bridges.

***Gas Tax Fund*** The gas tax fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township.

***Police District Fund*** This fund receives property tax and intergovernmental money for maintenance of police department operations.

***Motor Vehicle License Tax Fund*** The motor vehicle license tax fund accounts for and reports that portion of motor vehicle license registration fees restricted for maintenance and repair of roads within the Township.

***Permissive Motor Vehicle License Tax Fund*** The Township passed an additional \$5 license tax March 29, 2017. This license tax fund accounts for and reports that portion of permissive motor vehicle license fees restricted for maintenance and repair of roads within the Township.

***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 did not utilize any debt service funds.

***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 did not utilize any significant capital project funds during the audit period.

***Permanent Funds*** These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Township did not utilize any significant Permanent funds during the audit period.

***Enterprise Funds*** These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Township did not utilize Enterprise Funds during the audit period.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***Internal Service Fund*** This fund accounts for services provided by one department to other departments of the government unit. The Township did not utilize Internal Service Funds during the audit period.

***Fiduciary Funds*** Fiduciary funds include private purpose trust funds and custodial funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Township’s own programs. The Township has no private purpose trust funds.

Custodial Funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Township disburses these funds as directed by the individual, organization or other government. The Township’s custodial fund accounts for faithful performance cash deposit bonds paid by contractors.

***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.

***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, object 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.

***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.

***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 re-appropriated.

A summary of 2019 budgetary activity appears in Note 3.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***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.

Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

***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.

***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.

***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:

***Non-spendable*** The Township classifies assets as *non-spendable* 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 Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

**Note 2 – Summary of Significant Accounting Policies (continued)**

*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.

**Note 3 – Budgetary Activity**

Budgetary activity for the year ending 2019 follows:

2019 Budgeted vs Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,486,096	\$ 1,526,593	\$ 40,497
Special Revenue	4,473,737	4,191,864	(281,873)
Feduciary	25,000	21,275	(3,725)
<b>Total</b>	<b>\$5,984,833</b>	<b>\$ 5,739,732</b>	<b>\$ (245,101)</b>

2019 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$4,512,992	\$1,151,103	\$3,361,889
Special Revenue	6,200,222	3,987,352	2,212,870
Fiduciary	15,000	3,775	11,225
<b>Total</b>	<b>\$10,728,214</b>	<b>\$5,142,230</b>	<b>\$5,585,984</b>

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 4 – Deposits and Investments**

The Township maintains a deposits 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>2019</u>
Demand deposits	\$812,462
STAR Ohio	500,000
Repurchase agreement	4,915,334
Total investments	<u>5,415,334</u>
Total deposits and investments	<u><u>\$6,227,796</u></u>

***Deposits***

Deposits are insured by the Federal Deposit Insurance Corporation; (FDIC) or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

At December 31, 2019, \$184,880 of deposits were not insured or collateralized. The Township's total deposit coverage included FDIC insurance in the amount of \$250,000 and an OPCS allocation in the amount of \$415,120 or 69% of the uninsured bank balance. The Township's required collateral through the OPCS system was 50% of uninsured balance.

***Investments***

The Township's financial institution transfers securities to the Township's agent to collateralize repurchase agreements. The securities are not in the Township's name.

Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

**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 non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction 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.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 6 – Risk Management**

***Workers' Compensation***

Workers' Compensation coverage is provided by the State of Ohio. The Township pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

***Commercial Insurance***

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

**Note 7 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

Thirty-one (31) employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include post retirement health care and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS regular members contributed 10 percent of their gross salaries, and the Township contributed an amount equaling 14 percent of the participants' gross salaries. Police officers contributed 13 percent of their gross salaries and the Township contributed an amount equaling 18.1 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2019.

OPERS offers cost-sharing, multiple-employer defined benefit post-employment plans, which include 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. The portion of employer contributions allocated to health care for OPERS members in the traditional pension plan and combined plan was 0 percent during calendar year 2019. The portion of employer contributions allocated to health care for OPERS members in the member directed plan was 4 percent during calendar year 2019.

**Note 8 – Postemployment Benefits**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include 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. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 4.0 percent during calendar year 2019.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 9 – Debt**

Debt Outstanding at December 31, 2019 was limited to an Ohio Public Works Commission (OPWC) 0 percent interest loan in the amount of \$77,500.

During 2009, the Township received loan proceeds of \$155,000 from the OPWC to finance road construction projects. This is an interest free loan requiring semi-annual payments of \$3,875 beginning January 1, 2010 and ending July 1, 2029. The OPWC loan payments were paid from the Special Revenue Road and Bridge Fund.

**Amortization**

Amortization of the above debt is scheduled as follows:

<u>Year Ending</u> <u>December 31:</u>	<u>Ohio Public Works</u> <u>Commission</u>
2020	\$7,750
2021	7,750
2022	7,750
2023	7,750
2024	7,750
2025-2029	<u>38,750</u>
Total	<u>\$77,500</u>

**Note 10 – Joint Venture**

Sagamore Hills Township contracts with the City of Macedonia for Fire/EMS Services.

**Note 11 – Jointly Governed Organizations**

The Summit County Regional Planning Commission (the Commission) is a statutorily created political subdivision of Ohio. The Commission is jointly governed among municipalities and townships located in Summit County. Each member's control over the operation of the Commission is limited to its representation on the Board which consists of 48 members. The Board exercises total control over the Commission's operations.

The Cuyahoga Valley Regional Council of Governments (the Council) is a statutorily created political subdivision of Ohio. The Council is jointly governed among municipalities, townships, school districts, and park systems located in the Cuyahoga Valley. Each member's control over the operation of the Council is limited to its representation on the Board which consists of 34 members. The Board exercises total control over the Council's operation.

The Village of Walton Hills and Sagamore Hills Township Joint Economic Development District (JEDD) is a jointly governed organization established in 2015 in order to facilitate economic development and to create and preserve jobs and employment opportunities within the JEDD area. The five member Board consists of a Township member (initially the Chair of the Board of Township Trustees), a Village member (initially the Mayor of the Village), a representative of the business owners located in the district, a representative of the employees working in the district, and a fifth member appointed by the other four. The



**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2019*

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**Note 11 – Jointly Governed Organizations (continued)**

JEDD will be funded by an income tax levied on employee earnings and the net profits of businesses throughout the district and the Village will collect, administer, and enforce the income tax. The Township received four quarterly distributions from the JEDD totaling \$398,985.

**Note 12 – Contingent Liabilities**

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

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**Sagamore Hills Township**  
Summit County, Ohio  
Combined Statement of Receipts, Disbursements  
and Changes in Fund Balances (Cash Basis)  
All Governmental Fund Types  
For the Year Ended December 31, 2018

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$450,455	\$2,612,419	\$3,062,874
Charges for Services	0	247,996	247,996
Licenses, Permits and Fees	48,827	14,932	63,759
Fines and Forfeitures	0	506	506
Intergovernmental	701,260	674,906	1,376,166
Special Assessments	1,700	0	1,700
Earnings on Investments	9,465	274	9,739
Miscellaneous	46,631	6,764	53,395
<i>Total Cash Receipts</i>	<u>1,258,338</u>	<u>3,557,797</u>	<u>4,816,135</u>
<b>Cash Disbursements</b>			
Current:			
General Government	531,422	76,000	607,422
Public Safety	478,792	1,864,014	2,342,806
Public Works	13,500	520,327	533,827
Health	161,228	0	161,228
Conservation-Recreation	14,821	1,003	15,824
Capital Outlay	209,570	604,064	813,634
Debt Service:			
Principal Retirement	0	7,750	7,750
Interest and Fiscal Charges	2,592	0	2,592
<i>Total Cash Disbursements</i>	<u>1,411,925</u>	<u>3,073,158</u>	<u>4,485,083</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(153,587)</u>	<u>484,639</u>	<u>331,052</u>
<b>Other Financing Receipts (Disbursements)</b>			
Sale of Capital Assets	54,642	2,925	57,567
Transfers In	75,023	400,000	475,023
Transfers Out	(400,000)	0	(400,000)
Non Operating Loss (Net of Recovery)	(165,346)	(43,135)	(208,481)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(435,681)</u>	<u>359,790</u>	<u>(75,891)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(589,268)</u>	<u>844,429</u>	<u>255,161</u>
<i>Fund Cash Balances, January 1</i>	<u>3,642,711</u>	<u>1,527,831</u>	<u>5,170,542</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	0	2,372,260	2,372,260
Assigned	3,032,379	0	3,032,379
Unassigned (Deficit)	21,064	0	21,064
<i>Fund Cash Balances, December 31</i>	<u>\$3,053,443</u>	<u>\$2,372,260</u>	<u>\$5,425,703</u>

See accompanying notes to the basic financial statements

**Sagamore Hills Township**  
*Summit County, Ohio*  
*Combined Statement of Receipts, Disbursements*  
*and Changes in Fund Balances (Regulatory Cash Basis)*  
*Fiduciary Fund Type*  
*For the Year Ended December 31, 2018*

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	<u>Agency</u>
<b>Operating Cash Receipts</b>	
Licenses, Permits and Fees	<u>\$8,875</u>
<i>Operating Cash Disbursements</i>	<u>0</u>
<i>Operating Income (Loss)</i>	<u>8,875</u>
<b>Non-Operating Receipts (Disbursements)</b>	
Transfer Out	<u>(75,023)</u>
<i>Net Change in Fund Cash Balances</i>	<u>(66,148)</u>
<i>Fund Cash Balances, January 1</i>	<u>75,023</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$8,875</u></u>
<i>See accompanying notes to the basic financial statements</i>	

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 1 – Reporting Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Sagamore Hills Township, Summit 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, park maintenance and police protection. The Township contracts with the City of Macedonia to provide fire and emergency medical services.

**Jointly Governed Organizations**

The Township participates in the jointly governed organizations listed below. Note 11 to the financial statements provides additional information for these entities.

- **North Hills Water District** was established to provide for the construction and maintenance of water transmission lines to residents of Northfield Center Township and Sagamore Hills Township.
- **Summit County Regional Planning Commission** was established to advise municipalities and local governments in Summit County on planning, development, and zoning issues.
- **Cuyahoga Valley Regional Council of Governments** was established for municipalities, township, school districts, and park systems located in the Cuyahoga Valley to facilitate communication between the parks and local governments concerning zoning and other land issues.
- **Village of Walton Hills and Sagamore Hills Township Joint Economic Development District (JEDD)** was established to collect income tax revenue in order to facilitate economic development and to create and preserve jobs and employment opportunities within the JEDD area.

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, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

***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:

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

**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:

- **Road and Bridge Fund** This fund receives property tax and intergovernmental revenue money for constructing, maintaining, and repairing Township roads and bridges.
- **Police District Fund** This fund receives property tax and intergovernmental money for maintaining police department.
- **Gas Tax Fund** The gas tax fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township.
- **Motor Vehicle License Tax Fund** The motor vehicle license tax fund accounts for and reports that portion of motor vehicle license registration fees restricted for maintenance and repair of roads within the Township.
- **Permissive Motor Vehicle License Tax Fund** The Township passed an additional \$5 license tax March 29, 2017. This license tax fund accounts for and reports that portion of permissive motor vehicle license fees restricted for maintenance and repair of roads within the Township.

**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 did not utilize any significant capital project funds during the audit period.

**Fiduciary Funds** Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Township's own programs. The Township has no private purpose trust funds.

Agency Funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Township disburses these funds as directed by the individual, organization or other government. The Township's agency fund accounts for faithful performance cash deposit bonds paid by contractors.

**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

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

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.

***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. Unencumbered appropriations lapse at year-end.

***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.

***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 2018 budgetary activity appears in Note 3.

***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.

Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

***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.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2018*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***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.

***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:

***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 Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

***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.



**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements For*  
*the Year Ended December 31, 2018*

**Note 3 – Budgetary Activity**

Budgetary activity for the year ending December 31, 2018 follows:

2018 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,445,444	\$1,388,001	(\$57,443)
Special Revenue	3,838,721	3,960,719	121,998
Fiduciary	0	8,875	8,875
Total	<u>\$5,284,165</u>	<u>\$5,357,595</u>	<u>\$73,430</u>

2018 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$4,777,092	\$1,977,268	\$2,799,824
Special Revenue	3,945,282	3,116,293	828,989
Fiduciary	75,023	75,023	0
Total	<u>\$8,797,397</u>	<u>\$5,168,584</u>	<u>\$3,628,813</u>

**Note 4 – 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:

	2018
Demand deposits Investments:	<u>\$ 925,882</u>
STAR Ohio	500,000
Repurchase agreement	4,217,177
Net Loss – cybersecurity breach	<u>(208,481)</u>
Total deposits and investments	<u>\$5,434,578</u>

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

At December 31, 2018, \$247,425 of bank balance deposits were not insured or collateralized. The Township’s total deposit coverage included FDIC insurance in the amount of \$219,976 and an OPCS allocation in the amount of \$382,599 or 61% of the uninsured bank balance. The Township’s required collateral through the OPCS system was 50% of uninsured balance.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements For*  
*the Year Ended December 31, 2018*

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**Note 4 – Deposits and Investments (continued)**

**Investments:** The Township’s financial institution transfers securities to the Township’s agent to collateralize repurchase agreements. The securities are not in the Township’s name. Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

**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.

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

**Note 6 – Risk Management**

***Commercial Insurance***

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

There were no significant reductions in insurance coverage from the previous year, nor have settlements exceeded insurance coverage in any of the prior three years.

**Note 7 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

The Township’s employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include post retirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members who are not Law Enforcement Professionals contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participant’s gross salaries. OPERS members who are Law Enforcement Professionals contributed 13% and the Township contributed an amount equaling 18.1% of participants’ gross salaries. The Township has paid all contributions required through December 31, 2018.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements For*  
*the Year Ended December 31, 2018*

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**Note 8 – Postemployment Benefits**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include 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. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1% during calendar year 2018.

**Note 9 – Debt**

Debt outstanding at December 31, 2018, was as follows:

	<u>Principal</u>
Ohio Public Works Commission	\$85,250

During 2009, the Township received loan proceeds of \$155,000 from the Ohio Public Works Commission (OPWC) to finance road construction projects. This is an interest free loan requiring semi-annual payments of \$3,875 beginning January 1, 2010 and ending July 1, 2029. The OPWC loan payments were paid from the Special Revenue Road and Bridge Fund.

***Amortization***

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

Year Ending December 31:	Ohio Public Works Commission
2019	\$7,750
2020	7,750
2021	7,750
2022	7,750
2023-2026	31,000
2027-2029	23,250
Total	\$85,250

**Note 10 – Contingent Liabilities**

Amounts grantor agencies pay to the township are subject to audit and adjustment by the grantor. 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.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements For*  
*the Year Ended December 31, 2018*

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**Note 11 – Jointly Governed Organizations**

The North Hills Water District (the District) is a jointly governed organization established to provide for the construction and maintenance of water transmission lines to residents of Northfield Center Township and Sagamore Hills Township. The seven-member Board consists of three members appointed by each Township with one member appointed alternately by the Townships. The District's Board exercises total control over District operations, including budgeting, appropriating, contracting and hiring personnel. All of the District's revenues are derived from property taxes assessed on the property of Township residents. The City of Cleveland provides water service to the residents and bills them for water service. Financial information can be obtained by writing to the North Hills Water District, 253 West Aurora Road, Northfield Center, Ohio 44067.

The Summit County Regional Planning Commission (the Commission) is a statutorily created political subdivision of Ohio. The Commission is jointly governed among municipalities and townships located in Summit County. Each member's control over the operation of the Commission is limited to its representation on the Board which consists of 48 members. The Board exercises total control over the Commission's operations.

The Cuyahoga Valley Regional Council of Governments (the Council) is a statutorily created political subdivision of Ohio. The Council is jointly governed among municipalities, townships, school districts, and park systems located in the Cuyahoga Valley. Each member's control over the operation of the Council is limited to its representation on the Board which consists of 34 members. The Board exercises total control over the Council's operation.

The Village of Walton Hills and Sagamore Hills Township Joint Economic Development District (JEDD) is a jointly governed organization established in 2015 in order to facilitate economic development and to create and preserve jobs and employment opportunities within the JEDD area. The five-member Board consists of a Township member (initially the Chair of the Board of Township Trustees), a Village member (initially the Mayor of the Village), a representative of the business owners located in the district, a representative of the employees working in the district, and a fifth member appointed by the other four. The JEDD will be funded by an income tax levied on employee earnings and the net profits of businesses throughout the district and the Village will collect, administer, and enforce the income tax. The Township received four quarterly distributions from the JEDD totaling \$389,916.

**Note 12 – Cybersecurity Loss Net of Recovery**

During December 2018, the Former Fiscal Officer experienced an off-site cybersecurity breach which resulted in unauthorized access to the Township's bank accounts. As a result, the Township experienced a financial loss of \$1,106,686 of which \$898,204 was recovered, causing a financial loss (net of recovered amounts) of \$208,481. The net loss was allocated to the General Fund and the Special Revenue Funds based on the fund's relative percentage of cash fund balance. Therefore, the resulting losses to the General Fund and Special Revenue Fund were \$165,346 and \$43,135, respectively.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements For*  
*the Year Ended December 31, 2018*

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**Note 12 – Cybersecurity Loss Net of Recovery (continued)**

The Township believes the \$208,481 loss occurrence is the responsibility of the former Fiscal Officer. The Township was not aware the former Fiscal Officer was using an offsite governmental computer to access the Township's bank accounts until the events of this loss. The Township through various law enforcement agencies spent months investigating this matter and the loss. Fraudsters had put malware on an offsite non-township governmental computer the former Fiscal Officer had used to access the bank accounts of the Township. The bank accounts could only be accessed through a combination of a password and a random number generated by a token that only the former Fiscal Officer possessed. On the day before the loss this off-site computer brought up a dummy payment center that used malware installed upon the computer to deny the former Fiscal Officer's numerous login attempts. From these login attempts, the fraudsters gained access to the former Fiscal Officer's credentials, including the unique token, to then gain access to the Township bank accounts.

The former Fiscal Officer did not contact the bank to report the login issues he was having in not being able to login. Had he made a phone call to the bank when he could not login, the losses may have never occurred as the bank could have placed holds upon the account and flagged it or detected the fraudsters. By the next morning the fraudsters had used the login information to transfer \$1,106,685 in ACH debits from the Township bank accounts. The bank, recognizing the large transfers, alerted the previous Fiscal Officer in the morning via telephone of these ACH debits and asked if he had authorized them. The former Fiscal Officer informed bank that they were not authorized transfers and the bank then began a process of recalls of the funds. The former Fiscal Officer failed to notify the law enforcement of the nature of the loss from his non-Township governmental computer and instead relied upon the bank to recover the funds. Not only did the former Fiscal Officer not report the nature of the loss to law enforcement, but he affirmatively told the Township Trustees, the Sagamore Hills Police Chief, the Township lawyer and two representatives from the Auditor of State that it was actually the bank who experienced the cyberattack and that the bank would be making Sagamore Hills whole along with the other governmental entity that owned the computer he had used who he said had also experienced a loss from the same bank. It was not the bank who had been attacked but it was the malware on the former Fiscal Officer's offsite computer that caused this loss. This failure to report accurately what had happened lead to delay in following the fraudsters and valuable information that was likely on that computer. A number of law enforcement agencies have told the Township, "the sooner a cyber loss is reported the greater the chance of full funds recovery." The loss of this valuable time in starting an investigation and immediately investigating the information upon the former Fiscal Officer's non-township governmental computer, likely lead to a greater loss for the Township.

Thirty-seven days later, when a Township Trustee reviewed the then just issued previous month's bank statement, it was starting to become evident that the former Fiscal Officer had not been forthcoming about the significant tax dollars still missing from the Township account. At the time he said the loss was at a far lower amount when the bank statement reported a larger amount of missing funds. The Township does not believe that the former Fiscal Officer had any involvement in the theft of Township funds, but they do believe his failure to report accurate information did lead to greater loss and a protracted investigation chasing misinformation when law enforcement could have instead been immediately chasing the fraudsters.

**Sagamore Hills Township**  
*Summit County*  
*Notes to the Financial Statements For*  
*the Year Ended December 31, 2018*

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**Note 12 – Cybersecurity Loss Net of Recovery (continued)**

Subsequently, the Township Trustees engaged the services of Ohio Attorney General’s Bureau of Criminal Investigation and after an investigation involving U.S. Homeland Security and nearly five months, the Township learned that while bank recovered \$898,204, the financial loss to the Township was \$208,481 and not the approximately \$60,000 that the former Fiscal Officer had claimed the bank was telling him for several months. The Township insurer would not cover the loss because the cyberattack occurred off site. The Township believes had the former Fiscal Officer (1) reported to the bank his inability to access the accounts the day before the attack, when he was repeatedly denied access; or (2) simply told officials immediately that it was his offsite governmental computer that had been accessed through malware rather than the bank itself as he claimed, law enforcement would have taken immediate steps to prevent and/or diminish the loss. Instead the former Fiscal Officer misled officials by insisting the bank would make the Township whole when the bank was not responsible for the loss. Valuable time was lost by the failure to share accurate and timely information with law enforcement who could have immediately investigated this matter. The time and resources of the Township and the numerous law enforcement agencies could have been better spent their time immediately searching for the fraudsters rather than be chasing misinformation. None of these law enforcement agencies were ever able to examine the offsite non-township governmental computer containing the malware of the former Fiscal Officer.

Ultimately the former Fiscal Officer resigned his position and withdrew from the November ballot in 2019. The Township Trustees, with new Fiscal Officer Laura Steimle, have implemented a program with the bank to prevent such loss in the future with additional new policies, procedures and safeguards. The current Fiscal Officer only accesses Township bank accounts from secure Township computers at Township facilities. The Township has also obtained additional insurance to ensure for such loss.

# OHIO AUDITOR OF STATE KEITH FABER



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

Sagamore Hills Township  
Summit County  
11551 Valley View Road  
Sagamore Hills, Ohio 44067-1099

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Sagamore Hills Township, Summit County, (the Township) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements and have issued our report thereon dated September 9, 2020 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) and wherein we noted the Township incurred a net loss due to a cybersecurity breach.

### ***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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2019-001 to be a material weakness.

***Compliance and Other Matters***

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

***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 subject the Township's responses to the auditing procedures applied in the audit of the financial statements 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 report is not suitable for any other purpose.



Keith Faber  
Auditor of State

Columbus, Ohio

September 9, 2020



**SAGAMORE HILLS TOWNSHIP  
SUMMIT COUNTY**

**SCHEDULE OF FINDINGS  
December 31, 2019 and 2018**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2019-001**

**Material Weakness - Control Deficiency - Financial reporting**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The following exceptions were noted resulting in adjustments to the financial statements to reflect the proper reporting indicating a deficiency in the design, implementation and maintenance of internal control relevant to preparing and fairly presenting financial statements.

**2018**

- General Fund and Special Revenue Fund Ending Fund Cash Balances were overstated and the Other Financing Uses-Loss Net of Recovery balances were understated by \$165,346 (General Fund) and \$43,135 (Special Revenue Fund) due to a cyber-attack that occurred in December 2018 that resulted in a net loss.
- Special Revenue Intergovernmental Receipts and Capital Outlay Disbursements were understated by \$7,394 due to unrecorded OPWC on-behalf monies.
- General Fund Unassigned Fund Cash Balance was overstated and the Assigned Fund Cash Balance was understated by \$3,032,379 due to misclassification of the subsequent appropriations exceeding estimated receipts as assigned fund balance.
- Agency Fund Beginning Cash Balance, receipts, disbursements, and Ending Cash Balance were understated and the Investment Trust Fund Beginning Cash Balance, receipts, disbursements, and Ending Cash Balance were overstated by \$75,023, \$8,875, \$8,875, and \$75,023, respectively, due to the Agency fund activity improperly reported as Investment Trust Fund.

**2019**

- General Fund Intergovernmental Receipts and Capital Outlay Disbursements were understated by \$2,185 due to unrecorded OPWC on-behalf monies.
- Special Revenue Fund Intergovernmental Receipts and Capital Outlay Disbursements were understated by \$8,739 due to unrecorded OPWC on-behalf monies.
- General Fund Unassigned Fund Cash Balance was overstated and the Assigned Fund Cash Balance was understated by \$1,997,373 due to misclassification of the subsequent appropriations exceeding estimated receipts as assigned fund balance.
- Custodial Fund Beginning Cash Balance, receipts, disbursements, and Ending Cash Balance were understated and the Investment Trust Beginning Cash Balance, receipts, disbursements, and Ending Cash Balance were overstated by \$8,875, \$21,275, \$3,775, and \$26,375, respectively, due to the Agency fund activity improperly reported as Investment Trust Fund.
- Custodial Fund (Shop-with-a-Cop) Ending Cash Balance and receipts were overstated and the General Fund Ending Cash Balance and receipts were understated by \$657 due the activity improperly reported as an Agency Fund.

Additionally, the 2019 and 2018 footnote disclosure included various errors and omissions. As an example, the 2019 and 2018 Deposits note did not include the dollar amount of cash balances which were insured via the Federal Deposit Insurance Corporation and the Ohio Pooled Collateral System. While the 2019 notes omitted the required note disclosure for outstanding debt (Ohio Public Works Commission loan). As the footnote disclosures are an integral part of the financial statements, complete and accurate footnote disclosure is imperative to the readers of the financial statements

The financial statements and footnote disclosures were adjusted to reflect correction of these errors.

To help ensure the financial statements are presented properly, the Township should review the design, implementation and maintenance of internal controls relevant to preparing and fairly presenting financial statements and updated and/or clarify the procedures and expected practices and develop appropriate procedures to help ensure proper reporting and compliance. The Township should develop procedures to help ensure all receipts and disbursements activities are properly recorded in the Township's accounting system and subsequently on the annual Financial Statements. Also see Ohio Rev. Code § 5705.42 and Auditor of State (AoS) Bulletin 2000-008 *Accounting for Cash Basis Local Governments' Participation in On-behalf-of Grants or Improvement Projects* and AoS Bulletin 2002-004 *Public Works Commissions Infrastructure Project Accounting* and GASB 54 and AoS Bulletin 2011-004 for fund balance classification.

**Official's Response:** The Current Fiscal Officer, appointed December 2, 2020, has corrected these errors.

<b>OTHER – FINDINGS FOR RECOVERY</b>
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**FINDING NUMBER 2019-002**

**Noncompliance - Finding for Recovery - Overpayment**

Article 15 of the Collective Bargaining Agreement By and Between Sagamore Hills Township and the Ohio Patrolmen's Benevolent Association, the Bargaining Unit for all Part-time Patrolman for the period of January 1, 2016 through December 31, 2018, approved an hourly rate of \$21.63 to be paid to patrolman Nicholas Rezac and Michael Foschia during 2018 based on their ranks and years of service.

Article 15 of the Collective Bargaining Agreement By and Between Sagamore Hills Township and the Ohio Patrolmen's Benevolent Association, the Bargaining Unit for all Part-time Patrolman for the period of January 1, 2019 through December 31, 2021, approved an hourly rate of \$22.28 to be paid to patrolman Nicholas Rezac and Michael Foschia during 2019 based on their ranks and years of service.

However, Patrolman Nicholas Rezac was paid at an hourly rate of \$26.91 beginning January 1, 2018 and an Hourly Rate of \$27.72 beginning January 1, 2019 which resulted in an overpayment of \$5.28 and \$5.44 per hour for the years 2018 and 2019 respectively. Michael Foschia was paid at an hourly rate of \$22.07 beginning January 1, 2018 and an hourly rate of \$27.72 beginning January 1, 2019 which resulted in an overpayment of \$0.44 and \$5.44 per hour for the years 2018 and 2019, respectively.

The overpayments were the result of misinterpretations of the above contracts by the Township's former Fiscal Officer, Scott Gale. Overpayments occurred of \$1,743 for Patrolman Rezac and \$1,285 for Patrolman Foschia as calculated below.

Nicholas Rezac			
Description		Rate Variance	Total
2018 Regular hours: 194.57	x	\$5.28 per hour	\$1,027.33
Overtime hours: 6.00	x	\$7.92 per hour	47.52
2019 Regular hours: 123	x	\$5.44 per hour	<u>669.12</u>
			\$1,743
Michael Foschia			
Description		Rate Variance	Total
2018 Regular hours: 410.50	x	\$0.44 per hour	\$180.62
Overtime hours: 24.00	x	0.66 per hour	15.84
2019 Regular hours: 195.00	x	5.44 per hour	1,060.80
Overtime hours: 3.5	x	\$8.16 per hour	<u>28.56</u>
			<u>\$1,285</u>

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Patrolman Rezac in the amount of \$1,743 and Patrolman Foschia in the amount of \$1,285 in favor of the Sagamore Hills, Township Special Revenue Police District Fund, in the amount of \$3,028.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. Seward v. National Surety Corp. (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code Section 9.39; State, ex. Rel. Village of Linndale v. Masten (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. See 1980 Op. Att’y Gen. No. 80-074.

The former Township Fiscal Officer, Scott Gale, signed the payroll checks resulting in improper payments. Scott Gale and his bonding company the Cincinnati Insurance Company will be jointly and severally liable in the amount of \$2,854 and in favor of the Sagamore Hills Township Special Revenue Police District Fund.

On March 9, 2020, the Sagamore Township Trustees adopted Resolution 20-17 which resolved to recover the above overpayment of wages of \$3,028 from the former Fiscal Officer’s Bond.

The Township should implement controls to help ensure employees are paid properly and in compliance with Collective Bargaining Agreements.

**Official’s Response:** The Township believes the Former Fiscal Officer is responsible for applying the incorrect wage rates as reflected in Sagamore Hills Township Resolution 20-17. The Current Fiscal Officer has now corrected these errors within the Township’s financial system.

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2019 AND 2018**

Finding Number	Finding Summary	Status	Additional Information
2017-001	Finding for Recovery Under Audit – Overpayment of police officer due to data entry error by prior Township Fiscal Officer.	Fully corrected	
2017-002	Financial Statement Preparation of Internal Controls – Improper reported cash fund balance of Investment Trust Fund as Agency Fund, improperly recorded OPWC on behalf payments, improper recording of receipts (Emergency Medical Services and Joint Economic Development District) and improper reporting of General Fund assigned fund balance.	Not corrected	Newly elected Fiscal Officer will make the necessary corrections in 2020.

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# OHIO AUDITOR OF STATE KEITH FABER



**SAGAMORE HILLS TOWNSHIP**

**SUMMIT COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 10/1/2020**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)