

**SALEM TOWNSHIP
MONROE COUNTY**

AUDIT REPORT

JANUARY 1, 2018 - DECEMBER 31, 2019

OHIO AUDITOR OF STATE
KEITH FABER



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Columbus, Ohio 43215
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(800) 282-0370

Board of Township Trustees
Salem Township
P. O. Box 7
Clarington, Ohio 43915

We have reviewed the *Independent Auditors' Report* of Salem Township, Monroe County, prepared by Wilson, Phillips & Agin, CPA's, Inc., for the audit period January 1, 2018 through December 31, 2019. 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. Salem Township is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

June 1, 2020

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**SALEM TOWNSHIP
MONROE COUNTY
JANUARY 1, 2018 - DECEMBER 31, 2019**

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**WILSON, PHILLIPS & AGIN, CPA'S, INC.
1100 BRANDYWINE BLVD. BUILDING G
ZANESVILLE, OHIO 43701**

INDEPENDENT AUDITORS' REPORT

Salem Township
Monroe County
P.O. Box 7
Clarington, Ohio 43915

To the Township 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 the Salem Township, Monroe County, 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 opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

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

As described in Note 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, 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 permitted 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 Salem Township, Monroe County as of December 31, 2019 and 2018, 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 Salem Township, Monroe 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 Matter

As discussed in Note 12 to the 2019 financial statements, during 2020, the impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Township. 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 a report dated April 6, 2020, on our consideration of Salem 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.

Wilson, Phillips & Agin, CPA's, Inc.
Zanesville, Ohio
April 6, 2020

**SALEM TOWNSHIP
MONROE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property and Other Local Taxes | \$ 36,727 | \$ 73,270 | \$ 109,997 |
| Intergovernmental | 16,007 | 216,426 | 232,433 |
| Earnings on Investments | 269 | - | 269 |
| Miscellaneous | - | 23,834 | 23,834 |
| Total Cash Receipts | <u>53,003</u> | <u>313,530</u> | <u>366,533</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 155,376 | 202,258 | 357,634 |
| Public Safety | 47,347 | 2,094 | 49,441 |
| Public Works | - | 56,186 | 56,186 |
| Health | - | 13,411 | 13,411 |
| Human Services | - | 13,184 | 13,184 |
| Capital Outlay | - | 12,859 | 12,859 |
| Debt Service: | | | |
| Principal Retirement | - | 14,924 | 14,924 |
| Interest and Fiscal Charges | - | 2,656 | 2,656 |
| Total Cash Disbursements | <u>202,723</u> | <u>317,572</u> | <u>520,295</u> |
| Excess of Receipts Over/(Under) Disbursements | (149,720) | (4,042) | (153,762) |
| Other Financing Receipts (Disbursements) | | | |
| Other Financing Sources | 3,995 | 44,113 | 48,108 |
| Sale of Capital Assets | 2,500 | - | 2,500 |
| Other Financing Uses | - | (5,615) | (5,615) |
| Total Other Financing Receipts (Disbursements) | <u>6,495</u> | <u>38,498</u> | <u>44,993</u> |
| Special Item | 3,699 | 7,340 | 11,039 |
| Net Change in Fund Cash Balance | (139,526) | 41,796 | (97,730) |
| Fund Cash Balances, January 1, Restated | <u>157,410</u> | <u>80,383</u> | <u>237,793</u> |
| Fund Cash Balances, December 31 | | | |
| Restricted | - | 122,179 | 122,179 |
| Assigned | 4,613 | - | 4,613 |
| Unassigned (Deficit) | 13,271 | - | 13,271 |
| Fund Cash Balances, December 31 | <u>\$ 17,884</u> | <u>\$ 122,179</u> | <u>\$ 140,063</u> |

See notes to financial statements.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

1. REPORTING ENTITY

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Salem Township, Monroe County, (the Township) as a body corporate and politic. A publically-elected three-member Board of Trustees directs the Township. The Township provides general government services, road and bridge maintenance and cemetery maintenance. The Township contracts with the Clarington Volunteer Fire Department and the Monroe County Emergency Management Agency to provide fire and emergency services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. 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 monies to pay for constructing, maintaining, and repairing Township roads.

Road and Bridge Fund – This fund receives property tax monies to pay for constructing, maintaining, and repairing Township roads.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

D. 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 and object level of control and appropriations may not exceed estimated resources. The 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 in the subsequent year.

A summary of 2019 budgetary activity appears in Note 3.

E. Deposits and Investments

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

F. 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.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

H. 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.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2019 is as follows:

| 2019 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|--------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ 239,617 | \$ 63,197 | \$ (176,420) |
| Special Revenue | 308,436 | 364,983 | 56,547 |
| Total | \$ 548,053 | \$ 428,180 | \$ (119,873) |

| 2019 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ 275,350 | \$ 207,336 | \$ 68,014 |
| Special Revenue | 354,819 | 323,187 | 31,632 |
| Total | \$ 630,169 | \$ 530,523 | \$ 99,646 |

Contrary to ORC 5705.41(D), the Township made expenditures prior to certification.
 Contrary to ORC 5705.39, the Gasoline Tax fund had appropriations greater than estimated resources.

4. EQUITY IN POOLED CASH

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

| | |
|-----------------|------------|
| | 2019 |
| Demand Deposits | \$ 140,063 |
| Total | \$ 140,063 |

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

5. PROPERTY TAX

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

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

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

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

6. RISK MANAGEMENT

The Township is a member of the Ohio Township Association Risk Management Authority (The Pool). The Pool assumes the risk of loss up to the limits of the Township's policy. The Pool covers the following risks:

- General liability and casualty
- Public official's liability
- Cyber
- Law enforcement liability
- Automobile liability
- Vehicles
- Property
- Equipment breakdown

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31 (latest information available):

| | |
|-----------------------|--------------|
| | <u>2018</u> |
| Cash and investments | \$33,097,416 |
| Actuarial liabilities | 7,874,610 |

7. DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

The Township's full-time employees belong to the Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multiple employer plan. The Ohio Revised Code prescribes the plan benefits, which include postretirement healthcare, and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2019, OPERS members contributed 10.0% of their gross wages and the Township contributed an amount equal to 14.0% of participant's gross salaries. The Township has paid all contributions required through December 31, 2019.

Social Security

Some Township employees contributed to social security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2019.

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. OPERS contributes 2 percent of the employer contribution to fund these benefits. 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 4.0 percent during calendar year 2019.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

9. DEBT

Debt outstanding at December 31, 2019 was as follows:

| | Principal | Interest rate |
|---------------------------|-----------|---------------|
| New Holland T6050 Tractor | \$ 62,689 | 3.75% |
| Total | \$ 62,689 | |

The Township entered into a loan agreement with Citizen’s National Bank to finance the purchase of a New Holland T6050 tractor for Township road maintenance.

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

| Year Ending December 31: | Road Grader |
|--------------------------|-------------|
| 2020 | \$ 17,582 |
| 2021 | 17,582 |
| 2022 | 17,582 |
| 2023 | 14,652 |
| Total | \$ 67,398 |

10. PUBLIC ENTITY RISK POOL

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims exceeding the member’s deductible.

11. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the District 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.

12. SUBSEQUENT EVENTS

The United State and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Township. The impact on the Township’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**SALEM TOWNSHIP
MONROE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

| | <u>Governmental Fund Types</u> | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Property and Other Local Taxes | \$ 35,177 | \$ 84,304 | \$ 119,481 |
| Intergovernmental | 18,554 | 109,234 | 127,788 |
| Earnings on Investments | 160 | - | 160 |
| Total Cash Receipts | <u>53,891</u> | <u>193,538</u> | <u>247,429</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 122,907 | 149,331 | 272,238 |
| Public Safety | 14,096 | - | 14,096 |
| Public Works | - | 21,953 | 21,953 |
| Health | - | 1,552 | 1,552 |
| Capital Outlay | - | 78,613 | 78,613 |
| Total Cash Disbursements | <u>137,003</u> | <u>251,449</u> | <u>388,452</u> |
| Excess of Receipts Over/(Under) Disbursements | (83,112) | (57,911) | (141,023) |
| Other Financing Receipts (Disbursements) | | | |
| Other Financing Sources | 211,265 | - | 211,265 |
| Debt Proceeds | - | 77,613 | 77,613 |
| Other Financing Uses | - | (9,500) | (9,500) |
| Total Other Financing Receipts (Disbursements) | <u>211,265</u> | <u>68,113</u> | <u>279,378</u> |
| Special Item | 1,031 | 201 | 1,232 |
| Net Change in Fund Cash Balance | 129,184 | 10,403 | 139,587 |
| Fund Cash Balances, January 1, Restated | <u>28,226</u> | <u>69,980</u> | <u>98,206</u> |
| Fund Cash Balances, December 31 | | | |
| Restricted | - | 49,810 | 49,810 |
| Assigned | - | 30,573 | 30,573 |
| Unassigned (Deficit) | 157,410 | - | 157,410 |
| Fund Cash Balances, December 31 | <u>\$ 157,410</u> | <u>\$ 80,383</u> | <u>\$ 237,793</u> |

See notes to financial statements.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. REPORTING ENTITY

Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Salem Township, Monroe County, (the Township) as a body corporate and politic. A publically-elected three-member Board of Trustees directs the Township. The Township provides general government services, road and bridge maintenance and cemetery maintenance. The Township contracts with the Clarington Volunteer Fire Department and the Monroe County Emergency Management Agency to provide fire and emergency services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

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B. 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 monies to pay for constructing, maintaining, and repairing Township roads.

Road and Bridge Fund – This fund receives property tax monies to pay for constructing, maintaining, and repairing Township roads.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

D. 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 and object level of control and appropriations may not exceed estimated resources. The 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 in the subsequent year.

A summary of 2018 budgetary activity appears in Note 3.

E. Deposits and Investments

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

F. 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.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

H. 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.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2018 is as follows:

| 2018 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ 269,589 | \$ 266,187 | \$ (3,402) |
| Special Revenue | 190,317 | 271,352 | 81,035 |
| Total | \$ 459,906 | \$ 537,539 | \$ 77,633 |

| 2018 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$ 139,375 | \$ 137,003 | \$ 2,372 |
| Special Revenue | 197,975 | 260,949 | (62,974) |
| Total | \$ 337,350 | \$ 397,952 | \$ (60,602) |

Contrary to ORC 5705.41(D), the Township made expenditures prior to certification.
 Contrary to ORC 5705.39, the Gasoline Tax fund had appropriations greater than estimated resources.
 Contrary to ORC 5705.41(D), the Gasoline Tax Fund had expenditures exceeding appropriations.

4. EQUITY IN POOLED CASH

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

| | |
|-----------------|------------|
| | 2018 |
| Demand Deposits | \$ 237,793 |
| Total | \$ 237,793 |

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

5. PROPERTY TAX

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

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

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

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

6. RISK MANAGEMENT

The Township is a member of the Ohio Township Association Risk Management Authority (The Pool). The Pool assumes the risk of loss up to the limits of the Township's policy. The Pool covers the following risks:

- General liability and casualty
- Public official's liability
- Cyber
- Law enforcement liability
- Automobile liability
- Vehicles
- Property
- Equipment breakdown

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31:

| | |
|-----------------------|--------------|
| | <u>2018</u> |
| Cash and investments | \$33,097,416 |
| Actuarial liabilities | 7,874,610 |

7. DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

The Township's full-time employees belong to the Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multiple employer plan. The Ohio Revised Code prescribes the plan benefits, which include postretirement healthcare, and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2018, OPERS members contributed 10.0% of their gross wages and the Township contributed an amount equal to 14.0% of participant's gross salaries. The Township has paid all contributions required through December 31, 2018.

Social Security

Some Township employees contributed to social security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2018.

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. OPERS contributes 2 percent of the employer contribution to fund these benefits.

**SALEM TOWNSHIP
MONROE COUNTY**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

9. DEBT

Debt outstanding at December 31, 2018 was as follows:

| | Principal | Interest rate |
|---------------------------|-----------|---------------|
| New Holland T6050 Tractor | \$ 77,613 | 3.75% |
| Total | \$ 77,613 | |

The Township entered into a loan agreement with Citizen’s National Bank to finance the purchase of a New Holland T6050 tractor for Township road maintenance.

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

| Year Ending December 31: | Road Grader |
|--------------------------|-------------|
| 2019 | \$ 17,582 |
| 2020 | 17,582 |
| 2021 | 17,582 |
| 2022 | 17,582 |
| 2023 | 14,652 |
| Total | \$ 84,980 |

10. PUBLIC ENTITY RISK POOL

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims exceeding the member’s deductible.

11. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the District 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.

**WILSON, PHILLIPS & AGIN, CPA'S, INC.
1100 BRANDYWINE BLVD. BUILDING G
ZANESVILLE, OHIO 43701**

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

Salem Township
Monroe County
PO Box 7
Clarington, Ohio 43915

To the Township Trustees:

We have audited, in accordance with auditing standards general accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Salem Township, Monroe County 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 April 6, 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) permit.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. A *significant deficiency* is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Findings 2019-002, and 2019-003 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salem 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 was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed four instances of noncompliance or other matters we must report under *Government Auditing Standards* described in the accompanying Schedule of Findings as items 2019-001, 2019-002, 2019-004 and 2019-005.

Purpose of this Report

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

Wilson, Phillips & Agin, CPA's, Inc.
Zanesville, Ohio
April 6, 2020

**SALEM TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

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

FINDING NUMBER 2019-001

Noncompliance

Ohio Revised Code Chapter 133 allows various methods for subdivisions to incur debt. Section 133.22 allows a subdivision to issue anticipatory securities, Section 133.10 allows anticipation securities in anticipation of current property tax revenues, Section 133.14 allows the issuance of securities for the purpose of paying all or any portion of the costs of any permanent improvement that the subdivision is authorized, alone or in cooperation with other persons, to acquire, improve, or construct and Section 133.18 allows the taxing authority of a subdivision by legislation to submit to the electors of the subdivision the question is issuing any general obligation bonds, for one purpose, that the subdivision has power or authority to issue.

In 2018, the Township signed a promissory note with a local bank to purchase a Holland Tractor in the amount of \$77,613. This type of debt does not meet the criteria for any of the debt allowed in Ohio Revised Code Chapter 133.

The Ohio Revised Code contains various methods of incurring debt for Townships. Installment loans and promissory notes with banking institutions are not legal methods of debt for Townships.

We recommend the Township contact their legal counsel before incurring any future debt.

Client Response: We have not received a response from the client.

FINDING NUMBER 2019-002

Noncompliance/Material Weakness

Ohio Rev. Code Section 5705.10(D) requires all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose, shall be paid into a special fund for such purpose.

During 2018, the Fiscal Officer incorrectly posted Rollback and Homestead monies to the General Fund, in the amount of \$3,402 instead of the Cemetery Fund, in the amount of \$1,155 and the Road & Bridge Fund, in the amount of \$2,247.

During 2019, the Fiscal Officer incorrectly posted Rollback and Homestead monies to the General Fund in the amount of \$4,207 instead of the Cemetery Fund, in the amount of \$1,209, the Road & Bridge Fund, in the amount of \$2,351 and the Fire and Rescue Fund, in the amount of \$647.

Therefore, in 2019 and 2018, the Fiscal Officer improperly posted rollback homestead monies to the General Fund, in the amount of \$7,609 that should have posted to the Cemetery Fund, in the amount of \$2,364, Road & Bridge Fund, in the amount of \$4,598, and the Fire and Rescue Fund, in the amount of \$647. The Fiscal Officer made these adjustments to the Townships records and, therefore, these adjustments, are reflected in the accompanying financial statements.

Client Response: We have not received a response from the client.

**SALEM TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

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

Finding Number 2019-003

Material Weakness

All local offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

The Township Officer's Handbook (Revised 2017) provides suggested accounts classifications. These accounts classify receipts by fund and source (Taxes or charges for services, for example) and classify disbursements by fund, program (general government, for example) or object (personal services, for example). Using these classifications and the aforementioned accounting records will provide the Township with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

The Township did not properly post and classify all receipts and expenditures. Errors were made in recording various transactions. Amounts were not always posted to the correct fund and/or line item. The following adjustments and reclassifications were made.

Adjustments:

- In 2018, debt proceeds and capital outlay of \$77,613 was recorded on the financial statement in the Gasoline Tax Fund that was not recorded on the Township's books.

Reclassifications:

- In 2018, a reclassification from Property and Other Local Taxes to Intergovernmental Receipts, in the amount of \$1,879 in the General Fund for correct posting of Rollback monies.
- In 2018, a reclassification from Assigned Fund Balance in the Cemetery Fund to Restricted Fund Balance in the amount of \$34,410.
- In 2019, a reclassification from Property and Other Local taxes to Intergovernmental Receipts, in the amount of \$1,931 in the General Fund for correct posting of Rollback monies.
- In 2019, a reclassification from Other Financing Sources to Sale of Capital Outlay, in the amount of \$2,500 for the sale of equipment in the General Fund.
- In 2019, a reclassification from Other Financing Sources to Intergovernmental Receipts, in the amount of \$11,075 in the Fire and Rescue Fund for grants received.
- In 2019, a reclassification from Other Financing Sources to Intergovernmental Receipts, in the amount of \$81,116 in the FEMA Fund for monies received.
- In 2019, a reclassification from Special Items to Miscellaneous Receipts, in the amount of \$23,834 in the Gasoline Tax Fund.
- In 2019, a reclassification from General Government, in the amount of \$4,830 to Principal Retirement, in the amount of \$2,924 and Interest and Other Fiscal Charges, in the amount of \$1,906, in the Gasoline Tax Fund to properly state debt payments.

**SALEM TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

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

FINDING NUMBER 2019-003 (Continued)

- In 2019, a reclassification from Assigned Fund Balance in the Cemetery Fund to Restricted Fund Balance in the amount of \$26,175.
- In 2019, a reclassification from Unassigned Fund Balance to Assigned Fund Balance, in the amount of \$4,613 in the General Fund for encumbrances outstanding at December 31, 2019.

The adjustments with which the Township Official’s agree are reflected in the accompanying financial statements and posted to the accounting records.

We recommend the Township utilize available authoritative resources to appropriately classify and record all receipt and expenditure transactions.

Client Response: We have not received a response from the client.

FINDING NUMBER 2019-004

Noncompliance

Ohio Revised Code Section 5705.39 provides that total appropriations from each fund shall not exceed the total of the estimated revenues available for expenditure as certified by the budget commission. In addition, no appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total estimate or amended official estimate.

| | | Estimated | | | |
|--------------|------|------------|--|----------------|-------------|
| Fund | Year | Resources | | Appropriations | Variance |
| Gasoline Tax | 2019 | \$ 117,369 | | \$ 135,693 | \$ (18,324) |
| Gasoline Tax | 2018 | 99,143 | | 100,500 | (1,357) |

We recommend the Trustees review estimated resources versus appropriations throughout the year. Also, the Trustees should not approve appropriations greater than estimated resources. This could result in the Township spending more money than it receives and could cause possible negative fund balances.

Client Response: We have not yet received a response from the client.

**SALEM TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

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

FINDING NUMBER 2019-005

Noncompliance

Ohio Revised Code Section 5705.41 (B) states no subdivision or taxing unit is to expend money unless it has been appropriated. The Township had the following funds which had expenditures greater than appropriation authority.

| | | Appropriation | | | |
|--------------|------|---------------|--|--------------|---------------|
| Fund | Year | Authority | | Expenditures | Variance |
| Gasoline Tax | 2018 | \$ 100,500 | | \$ 169,907 | \$ v (69,407) |

We recommend the Trustees review expenditures versus appropriation authority throughout the year. Also, the Trustees should not approve expenditures greater than appropriations. This results in the Township spending more money than it appropriated and could cause possible negative fund balances.

Client Response: We have not received a response from the client.

**SALEM TOWNSHIP
MONROE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2019**

| Finding Number | Finding Summary | Fully Corrected | Not Corrected, Partially Corrected Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|--|-----------------|--|
| 2017-001 | Noncompliance ORC 5705.41(D) certifications not made prior to purchase. | No | Partially Corrected; Included in Management Letter |
| 2017-002 | ORC Chapter 133, Section 133.22 Proper Debt Incurred | No | Not Corrected In current report as Finding 2019-001 |
| 2017-003 | ORC Section 5705.10(D) Revenue and its particular use | No | Not Corrected In current report as Finding 2019-002 |
| 2017-004 | Material Weakness Reclassifications and adjustments | No | Not Corrected In current report as Finding 2019-003 |
| 2017-005 | Material Weakness/OAC 117-2-02(A) Voucher packages missing | Yes | Finding No Longer Valid |

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OHIO AUDITOR OF STATE KEITH FABER



SALEM TOWNSHIP

MONROE 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
JUNE 11, 2020**