

**VERNON TOWNSHIP
TRUMBULL COUNTY
Regular Audit
For the Years Ended December 31, 2013 and 2012**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Board of Trustees
Vernon Township
6915 B State Route 88
Kinsman, Ohio 44428

We have reviewed the *Independent Auditor's Report* of Vernon Township, Trumbull County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2012 through December 31, 2013. 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. Vernon Township is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

September 9, 2014

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VERNON TOWNSHIP
TRUMBULL COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2013	4
Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Cash Basis) - Private Purpose Trust Fund - For the Year Ended December 31, 2013	5
Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2012	6
Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Cash Basis) - Private Purpose Trust Fund - For the Year Ended December 31, 2012	7
Notes to the Financial Statements	8
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Audit Findings	19

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INDEPENDENT AUDITOR'S REPORT

July 23, 2014

Vernon Township
Trumbull County
6915 B State Route 88
Kinsman, Ohio 44428

To the Board of Trustees:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2013 and 2012, or changes in financial position thereof for the years then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

Charges for services receipts are reported at \$38,105 and \$49,017 for the years ended December 31, 2013 and 2012, respectively, which are 15.1% of Special Revenue receipts for the year ended December 31, 2013, and 21.3% of Special Revenue receipts for the year ended December 31, 2012. We were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as charges for services receipts. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion on Regulatory Basis of Accounting

Also in our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion on Regulatory Basis of Accounting* paragraph, the financial statements referred to above present fairly, in all material respects, the combined special revenue fund cash balances of Vernon Township, Trumbull County as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1B.

Opinion on Regulatory Basis of Accounting

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 23, 2014, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Perry & Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**VERNON TOWNSHIP
TRUMBULL COUNTY**

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

	General	Special Revenue	Debt Service	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$ 41,374	\$ 71,340	\$ 21,093	\$ 133,807
Charges for Services	-	38,105	-	38,105
Intergovernmental	28,450	127,955	-	156,405
Licenses, Permits and Fees	8,142	1,650	-	9,792
Fines and Forfeitures	983	-	-	983
Earnings on Investments	39	6	-	45
Miscellaneous	5,245	12,632	-	17,877
<i>Total Cash Receipts</i>	<u>84,233</u>	<u>251,688</u>	<u>21,093</u>	<u>357,014</u>
Cash Disbursements				
Current:				
General Government	57,143	29,775	-	86,918
Public Safety	7,668	120,471	-	128,139
Public Works	2,023	46,419	-	48,442
Health	5,413	1,575	-	6,988
Human Services	1,206	5,620	-	6,826
Debt Service:				
Principal Retirement	-	-	19,254	19,254
Interest and Fiscal Charges	-	-	1,566	1,566
<i>Total Cash Disbursements</i>	<u>73,453</u>	<u>203,860</u>	<u>20,820</u>	<u>298,133</u>
<i>Net Change in Fund Cash Balances</i>	<u>10,780</u>	<u>47,828</u>	<u>273</u>	<u>58,881</u>
<i>Fund Cash Balances, January 1</i>	<u>39,407</u>	<u>267,535</u>	<u>366</u>	<u>307,308</u>
Fund Cash Balances, December 31				
Restricted	-	315,363	639	316,002
Unassigned	52,396	-	-	52,396
<i>Fund Cash Balances, December 31</i>	<u>\$ 50,187</u>	<u>\$ 315,363</u>	<u>\$ 639</u>	<u>\$ 366,189</u>

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

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (CASH BASIS)
PRIVATE PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>Fiduciary Fund Type Private Purpose Trust</u>
<i>Total Cash Receipts</i>	\$ -
<i>Total Cash Disbursements</i>	-
<i>Net Change in Fund Cash Balances</i>	-
<i>Fund Cash Balances, January 1</i>	<u>1,044</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$ 1,044</u></u>

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

**VERNON TOWNSHIP
TRUMBULL COUNTY**

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

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$ 42,166	\$ 69,795	\$ 21,951	\$ -	\$ 133,912
Charges for Services	-	49,017	-	-	49,017
Intergovernmental	30,762	106,839	-	162,196	299,797
Licenses, Permits and Fees	7,545	3,350	-	-	10,895
Fines and Forfeitures	963	-	-	-	963
Earnings on Investments	79	17	-	-	96
Miscellaneous	9,471	959	-	-	10,430
<i>Total Cash Receipts</i>	<u>90,986</u>	<u>229,977</u>	<u>21,951</u>	<u>162,196</u>	<u>505,110</u>
Cash Disbursements					
Current:					
General Government	66,799	25,587	-	-	92,386
Public Safety	6,461	97,856	-	-	104,317
Public Works	2,910	112,897	-	-	115,807
Health	937	3,914	-	-	4,851
Capital Outlay	-	-	-	162,196	162,196
Debt Service:					
Principal Retirement	-	-	19,254	-	19,254
Interest and Fiscal Charges	-	-	2,469	-	2,469
<i>Total Cash Disbursements</i>	<u>77,107</u>	<u>240,254</u>	<u>21,723</u>	<u>162,196</u>	<u>501,280</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>13,879</u>	<u>(10,277)</u>	<u>228</u>	<u>-</u>	<u>3,830</u>
Other Financing Receipts (Disbursements)					
Advances In	50	50	-	-	100
Advances Out	(50)	(50)	-	-	(100)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	<u>13,879</u>	<u>(10,277)</u>	<u>228</u>	<u>-</u>	<u>3,830</u>
<i>Fund Cash Balances, January 1 - Restated (See Note 10)</i>	<u>25,528</u>	<u>277,812</u>	<u>138</u>	<u>-</u>	<u>303,478</u>
Fund Cash Balances, December 31					
Restricted	-	267,535	366	-	267,901
Unassigned	39,407	-	-	-	39,407
<i>Fund Cash Balances, December 31</i>	<u>\$ 39,407</u>	<u>\$ 267,535</u>	<u>\$ 366</u>	<u>\$ -</u>	<u>\$ 307,308</u>

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

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCES (CASH BASIS)
PRIVATE PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Fiduciary Fund Type
	Private Purpose Trust
Cash Receipts	
Earnings on Investments	\$ 1
<i>Total Cash Receipts</i>	1
<i>Total Cash Disbursements</i>	-
<i>Excess of Receipts Over (Under) Disbursements</i>	1
<i>Net Change in Fund Cash Balances</i>	1
<i>Fund Cash Balances, January 1 - Restated (See Note 10)</i>	1,043
<i>Fund Cash Balances, December 31</i>	\$ 1,044

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

**VERNON TOWNSHIP
TRUMBULL COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Vernon Township, Trumbull County, Ohio (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides general governmental services including road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with Burghill-Vernon Volunteer Fire Department for fire and emergency ambulance services and with Hartford Township for police protection.

The Township participates in a public entity risk pool. Note 8 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool:

The Ohio Township Association Risk Management Authority (OTARMA), is a risk-sharing pool available to Ohio townships.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. 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.

Money market mutual funds (including Star Ohio) are recorded at share values the mutual funds report.

D. Fund Accounting

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

1. General Fund

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

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

2. Special Revenue Funds

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

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

Fire Special Levy Fund - This fund receives property tax money to provide fire protection to Township residents.

Fire and Rescue, Ambulance and EMS Service Special Levy Fund - This fund receives property tax money to provide fire and rescue, ambulance and EMS services to Township residents.

3. Debt Service Funds

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

General Loan Retirement Fund - This fund was established to pay the debt payments on the Township's loan for a dump truck.

4. Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Township had the following significant Capital Project Fund:

Beach Smith Road Safety Upgrade Project Fund – The Township received a grant from the Ohio Public Works Commission for an asphalt project.

5. Fiduciary Funds

Fiduciary funds include private purpose trust 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 had the following significant Private Purpose Trust Funds:

Milliken Cemetery Bequest Fund – This fund is used for the benefit of certain individuals for cemetery grave upkeep and maintenance.

Brennaman Cemetery Bequest Fund – This fund is used for the benefit of certain individuals for cemetery grave upkeep and maintenance.

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

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

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Balance (Continued)

4. Assigned

Assigned funds 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* amount represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant and Equipment

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

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

The Township maintains a deposit and investment pool that 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:

	2013	2012
Demand Deposits	\$ 335,055	\$ 276,187
Total Deposits	335,055	276,187
STAR Ohio	32,178	32,165
Total Investments	32,178	32,165
Total Deposits and Investments	\$ 367,233	\$ 308,352

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in a physical or book-entry form.

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(CONTINUED)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2013 and 2012 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$76,131	\$84,233	\$8,102
Special Revenue	228,594	251,688	23,094
Debt Service	20,820	21,093	273
Total	\$325,545	\$357,014	\$31,469

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$79,469	\$73,453	\$6,016
Special Revenue	231,238	203,860	27,378
Debt Service	20,820	20,820	-
Private Purpose Trust	80	-	80
Total	\$331,607	\$298,133	\$33,474

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$86,519	\$90,986	\$4,467
Special Revenue	248,502	229,977	(18,525)
Debt Service	21,723	21,951	228
Capital Projects	162,196	162,196	-
Private Purpose Trust	1	1	-
Total	\$518,941	\$505,111	\$(13,830)

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$83,702	\$77,107	\$6,595
Special Revenue	321,274	240,254	81,020
Debt Service	21,723	21,723	-
Capital Projects	162,196	162,196	-
Private Purpose Trust	80	-	80
Total	\$588,975	\$501,280	\$87,695

4. PROPERTY TAX

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

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

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(CONTINUED)**

5. DEBT

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Dump Truck Loan	\$ 19,254	4.50%
Total	\$ 19,254	

In 2009, the Township received a loan from The Huntington National Bank for a 2010 International Dump Truck for the principal amount of \$96,269 at a rate of 4.75%. Semi-annual payments of \$9,627 plus accrued interest are scheduled for five years.

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

Year Ending December 31:	Dump Truck Loan
2014	\$ 19,924

6. LEASE

The Township leased a John Deere Gator through John Deere Financial. The total amount financed was \$14,930 payable in semi-annual installments of \$2,488 at an interest rate of 0%. The first payment was due in August 2013. The Township disbursed \$2,488 to pay lease costs for the year ended December 31, 2013.

Future lease payments are as follows:

Year	Amount
2014	\$ 4,977
2015	4,977
2016	2,488
	\$ 12,442

7. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, OPERS members contributed 10% of their gross salaries, and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2013.

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(CONTINUED)**

8. RISK MANAGEMENT

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

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

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

Casualty and Property Coverage

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

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

Financial Position

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

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

At December 31, 2013 and 2012, respectively, the liabilities above include approximately \$7.9 and \$8.7 million of estimated incurred claims payable. The assets above also include approximately \$7.4 and \$7.8 million of unpaid claims to be billed to approximately 948 member governments in the future, as of December 31, 2013 and 2012, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2013, the Township's share of these unpaid claims collectible in future years is approximately \$5,000.

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

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(CONTINUED)**

8. RISK MANAGEMENT (CONTINUED)

<u>Contributions to OTARMA</u>	
<u>2013</u>	<u>2012</u>
\$8,493	\$8,410

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

9. 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.

10. RESTATEMENT OF FUND BALANCES

In March 2010 the Court of Common Pleas – General Division of Trumbull County Ohio settled a lawsuit in which the money remaining from a prior fire levy and held by the Burghill-Vernon Volunteer Fire Department Association was to be turned over to the Township. The Township received \$56,105 from four separate bank accounts held by the Burghill-Vernon Volunteer Fire Department and recorded them in four separate agency funds established within the Township's accounting system.

Since the court found in favor of the Township these funds should have been placed into the Fire and Rescue, Ambulance and EMS Service Fund, Special Revenue Fund type, since this is the fund that holds the levy proceeds.

The Township also misclassified funds held for the benefit of certain individuals for cemetery grave upkeep and maintenance, in the amount of \$1,043, as permanent funds when they meet the definition of and should have been classified as Private Purpose Trust Funds, Fiduciary Fund Type.

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(CONTINUED)**

10. RESTATEMENT OF FUND BALANCES (CONTINUED)

Beginning Fund Balance was adjusted as follows:

	Governmental Fund Type		Fiduciary Fund Type	
	Special Revenue	Permanent	Agency	Private Purpose Trust
Fund Balance December 31, 2011	\$ 221,707	\$ 1,043	\$ 56,105	\$ -
Adjustment of Funds	56,105	(1,043)	(56,105)	1,043
Fund Balance December 31, 2011 - Restated	\$ 277,812	\$ -	\$ -	\$ 1,043

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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***

July 23, 2014

Vernon Township
Trumbull County
6915 B State Route 88
Kinsman, Ohio 44428

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 **Vernon Township**, Trumbull County, (the Township) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated July 23, 2014, 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. We qualified our opinion on charges for services in the special revenue fund type for the years ended December 31, 2013 and 2012 because we were unable to obtain sufficient appropriate audit evidence supporting the amounts recorded as charges for services receipts.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2013-001 through 2013-003 described in the accompanying schedule of audit findings to be material weaknesses.

Compliance and Other Matters

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

We did note a certain matter not requiring inclusion in this report that we reported to the Township's management in a separate letter dated July 23, 2014.

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.



Perry & Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-001

Material Weakness

Posting Receipts and Fund Balance Classification

Receipts should be posted to the fund and line item accounts as established by Ohio Administrative Code. Fund balances should be properly classified based on Governmental Accounting Standards Board Statement No. 54.

Receipts and Fund balances were not always posted or classified correctly. The following errors were noted:

- A Motor Vehicle License Tax receipt was recorded in the Gasoline Tax Fund in 2013.
- A Gasoline Tax receipt was recorded in the General Fund as a Property Tax receipts in 2013.
- Insurance proceeds were recorded as special items in the General Fund in 2012 and 2013 and a damage reimbursement was recorded as a special item in 2012 in the Gasoline Tax Fund; all of these should have been recorded as miscellaneous receipts.
- Trust fund activity was presented as a Permanent Fund instead of a Private Purpose Trust Fiduciary Fund.

Not posting receipts and classifying fund balances accurately resulted in the financial statements requiring reclassifications and adjustments. The Township officials have agreed to the proposed adjustments and recorded them to the accounting system. The financial statements reflect all reclassifications and adjustments.

To help ensure accuracy and reliability in the financial reporting process, we recommend the management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all Receipts are properly identified and classified on the financial statements.

We also recommend the Fiscal Officer refer to Ohio Administrative Code Section 117-7-01 and/or the Ohio Township Handbook for guidance to determine proper establishment and posting of receipts and expenditures and refer to Auditor of State Technical Bulletins 2005-005 and 2011-004 for fund balance classification information.

Management's Response – We did not receive a response to this finding.

FINDING NUMBER 2013-002

Material Weakness

Accounting for Charges for Services

All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements. In addition, when designing a system of internal control and the specific control activities, management should consider monitoring activities performed by service organizations.

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**SCHEDULE OF AUDIT FINDINGS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-002 (CONTINUED)

Accounting for Charges for Services (Continued)

The Township contracts with Burghill Vernon Fire Department (the Fire Department), to provide fire and emergency medical/ambulance services and the associated billing and collection of said services. The Fire Department contracted with L&D Medical Billing (L&D) to bill and collect fees on behalf of the Fire Department for ambulance and emergency services. When fees are collected, L&D is to send a check for the amount to the Fire Department, which in turn, deposits the receipts in the Township's designated depository as provided in the contract. However, the process was not fully implemented.

The Fire Department is considered a service organization and L&D is a subservice organization in relation to the Township. The Township did not establish procedures to determine whether the Fire Department and L&D had sufficient controls implemented and operating effectively to reduce the risk that the ambulance and emergency services have not been completely and accurately processed in accordance with the contract between the Fire Department and the Township.

This resulted in difficulty determining if L&D used board approved rates, appropriate cutoff and assurance of completeness. This could also allow for amounts collected by the L&D and received by the Fire Department not to agree to amounts deposited into the Township's designated depository account.

We recommend the Fire Department provide the Township a detailed listing of emergency runs/bills and receipts collected for the month. This listing should be compared to the amount deposited by L&D into the Township's account to ensure amounts collected agree to amounts deposited. Any discrepancies between the amounts deposited and the amounts collected should be explained.

Additionally, we recommend the Township help assure the completeness and accuracy of ambulance and emergency services processed by the sub-service organization, L&D. Statement of Standards for Attestation Engagements No. 16 Reporting on Controls at a Service Organization (SSAE No. 16) prescribes standards for reporting on service organizations. L&D should obtain and provide to the Township an unqualified Type II Report on Management's Description of a Service Organization's System and the Suitability of Design and Operating Effectiveness of Controls in accordance with SSAE No. 16 from its service organization, L&D. In addition, the Fire Department should provide to the Township any additional complementary user control documentation that may be required by L&D for the achievement of L&D's control objectives. The report should follow the American Institute of Certified Public Accountants' standards and be performed by a firm registered and in good standing with the Accountancy Board of the respective state.

Management's Response – We did not receive a response to this finding.

**VERNON TOWNSHIP
TRUMBULL COUNTY**

**SCHEDULE OF AUDIT FINDINGS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

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

FINDING NUMBER 2013-003

Material Weakness

Restatement of Fund Balance Due to Court Order

In March 2010 the Court of Common Pleas – General Division of Trumbull County Ohio settled a lawsuit in which the money remaining from a prior fire levy and held by the Burghill-Vernon Volunteer Fire Department Association was to be turned over to the Township. The Township received these funds and recorded them in four separate agency funds established within the Township’s accounting system.

Since the court found in favor of the Township these funds should have been placed into the Fire and Rescue, Ambulance and EMS Service Fund Special Revenue Fund Type as this is the fund that holds the levy proceeds. This adjustment has been made to the Township’s financial statements to reflect the proper reclassification. The Township officials are aware of this adjustment and have posted it to the Township’s accounting system.

Management’s Response – We did not receive a response to this finding.

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Dave Yost • Auditor of State

VERNON TOWNSHIP

TRUMBULL COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 23, 2014**