



Dave Yost • Auditor of State

LOUDON TOWNSHIP
SENECA COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Loudon Township
Seneca County
P.O. Box 630
Fostoria, Ohio 44830-0630

To the Board of Trustees:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2017 and 2016, and the respective changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2018, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

August 28, 2018

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**Loudon Township
Seneca County**

**Combined Statement of Receipts, Disbursements,
and Changes in Fund Balances (Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2017**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts				
Property and Other Local Taxes	\$49,606	\$124,015		\$173,621
Licenses, Permits and Fees	404,700			404,700
Intergovernmental	34,906	122,888	\$30,635	188,429
Earnings on Investments	529	76		605
Miscellaneous	20,253			20,253
<i>Total Cash Receipts</i>	<u>509,994</u>	<u>246,979</u>	<u>30,635</u>	<u>787,608</u>
Cash Disbursements				
Current:				
General Government	149,250			149,250
Public Works	156,684	142,255		298,939
Health	8,772			8,772
Capital Outlay	31,703	5,600	304,778	342,081
<i>Total Cash Disbursements</i>	<u>346,409</u>	<u>147,855</u>	<u>304,778</u>	<u>799,042</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>163,585</u>	<u>99,124</u>	<u>(274,143)</u>	<u>(11,434)</u>
Other Financing Receipts (Disbursements)				
Transfers In			214,561	214,561
Transfers Out	(214,561)			(214,561)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(214,561)</u>		<u>214,561</u>	
<i>Net Change in Fund Cash Balances</i>	(50,976)	99,124	(59,582)	(11,434)
<i>Fund Cash Balances, January 1</i>	<u>444,089</u>	<u>123,560</u>	<u>136,000</u>	<u>703,649</u>
Fund Cash Balances, December 31				
Restricted		217,984		217,984
Committed		4,700		4,700
Assigned	389,932		76,418	466,350
Unassigned	3,181			3,181
<i>Fund Cash Balances, December 31</i>	<u>\$393,113</u>	<u>\$222,684</u>	<u>\$76,418</u>	<u>\$692,215</u>

See accompanying notes to the basic financial statements

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2017**

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Loudon Township, Seneca County, Ohio (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, and cemetery maintenance.

Jointly Governed Organizations and Public Entity Risk Pool

The Township participates in two jointly governed organizations and a public entity risk pool. Notes 6 and 9 to the financial statements provides additional information for these entities. The Township's management believes these financial statements present all activities for which the Township is financially accountable.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

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:

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

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

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

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)**

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 Funds:

Miscellaneous Capital Fund The Township established a capital improvement fund for the purpose of accumulating resources for the replacement of the township plows, pickups, and backhoe equipment.

Public Works Fund The Township received Issue I monies from the state for constructing, maintaining and repairing roads within the Township.

Basis of Accounting

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

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

Budgetary Process

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

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

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

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

A summary of 2017 budgetary activity appears in Note 3.

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)**

Deposits and Investments

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

Capital Assets

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

Accumulated Leave

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

Fund Balance

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

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.

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)**

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.

In addition to the above fund balance constraints, the Township has a General fund budget stabilization arrangement that does not meet the criteria to be classified as restricted or committed. Pursuant to Ohio Revised Code Section 5705.13, the Township established a budget stabilization by resolution to provide options to respond to unexpected issues and afford a buffer against shocks and other forms of risk such as revenue volatility, unexpected infrastructure failure, or disaster situations. Expenditures of a recurring nature are not addressed through the use of this arrangement. The Township Trustees authorized the funding of this arrangement as resources become available in the General fund. The fund balance should not exceed one-sixth of the expenditures during the preceding fiscal year. The intended balance in the reserve at December 31, 2017, is \$44,000.

Note 3 – Budgetary Activity

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

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$229,896	\$509,994	\$280,098
Special Revenue	243,453	246,979	3,526
Capital Projects	170,196	245,196	75,000
Total	\$643,545	\$1,002,169	\$358,624

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$640,721	\$564,147	\$76,574
Special Revenue	350,560	148,810	201,750
Capital Projects	306,196	304,778	1,418
Total	\$1,297,477	\$1,017,735	\$279,742

Note 4 – Deposits

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:

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)**

	2017
Demand deposits	<u>\$362,304</u>
Other time deposits (savings account)	<u>329,911</u>
Total deposits	<u><u>\$692,215</u></u>

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS).

At December 31, 2017, the \$511,153 of the Township's bank balance of \$761,153 was exposed to custodial credit risk. Certain timing issues related to fluctuations in depository balances contributed to the uncollateralized balance. These insufficiencies were corrected the next business day.

Note 5 – Property Taxes

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

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

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

Note 6 – Risk Management

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

The Township belongs to the Ohio Township Association Workers' Compensation Group Rating program who benefits from industry-leading discounts through a workers' compensation group rating program with CareWorksComp.

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.

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)**

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2017, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

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

	2017
Assets	\$40,010,732
Liabilities	8,675,465
Net Position	\$31,335,267

At December 31, 2017 the liabilities above include approximately \$8.0 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,016 member governments in the future, as of December 31, 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Township's share of these unpaid claims collectible in future years is approximately \$4,000.

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.

<u>2017 Contributions to OTARMA</u> \$9,511

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)**

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

Note 7 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2017.

Social Security

The Township's previous Fiscal Officer contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

The employee 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, 2017.

Note 8 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

Note 9 – Jointly Governed Organizations

The Bascom Joint Ambulance District is jointly governed organization. Loudon and Hopewell Townships appoint members to sit on the Ambulance District Board. The Ambulance District provides ambulance services within the district.

The Bascom Joint Fire Department is jointly governed organization. Loudon and Hopewell Townships appoint members to sit on the Fire District Board. The Fire District provides fire protection services within the district.

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)**

Note 10 – Encumbrances

The Township utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be report as part of restricted, committed, or assigned classifications of fund balance. At year end, the Township's commitments for encumbrances in the General fund and Special Revenues funds were \$3,177 and \$955, respectively.

**Loudon Township
Seneca County**

**Combined Statement of Receipts, Disbursements,
and Changes in Fund Balances (Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts				
Property and Other Local Taxes	\$50,511	\$126,278		\$176,789
Licenses, Permits and Fees	359,849			359,849
Intergovernmental	36,115	120,969	\$26,643	183,727
Earnings on Investments	450	43		493
Miscellaneous	627			627
<i>Total Cash Receipts</i>	<u>447,552</u>	<u>247,290</u>	<u>26,643</u>	<u>721,485</u>
Cash Disbursements				
Current:				
General Government	141,395			141,395
Public Works	99,636	220,463		320,099
Health	9,045			9,045
Capital Outlay	19,606	14,617	144,643	178,866
<i>Total Cash Disbursements</i>	<u>269,682</u>	<u>235,080</u>	<u>144,643</u>	<u>649,405</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>177,870</u>	<u>12,210</u>	<u>(118,000)</u>	<u>72,080</u>
Other Financing Receipts (Disbursements)				
Sale of Capital Assets			118,000	118,000
Transfers In			75,000	75,000
Transfers Out	(75,000)			(75,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(75,000)</u>		<u>193,000</u>	<u>118,000</u>
<i>Net Change in Fund Cash Balances</i>	102,870	12,210	75,000	190,080
<i>Fund Cash Balances, January 1</i>	<u>341,219</u>	<u>111,350</u>	<u>61,000</u>	<u>513,569</u>
Fund Cash Balances, December 31				
Restricted		118,860		118,860
Committed		4,700		4,700
Assigned	410,825		136,000	546,825
Unassigned	33,264			33,264
<i>Fund Cash Balances, December 31</i>	<u>\$444,089</u>	<u>\$123,560</u>	<u>\$136,000</u>	<u>\$703,649</u>

See accompanying notes to the basic financial statements

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2016**

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Loudon Township, Seneca County, Ohio (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, and cemetery maintenance.

Jointly Governed Organizations and Public Entity Risk Pool

The Township participates in two jointly governed organizations and a public entity risk pool. Notes 6 and 9 to the financial statements provides additional information for these entities. The Township's management believes these financial statements present all activities for which the Township is financially accountable.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

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:

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

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

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

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)**

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 Funds:

Miscellaneous Capital Fund The Township established a capital improvement fund for the purpose of accumulating resources for the replacement of the township plows, pickups, and backhoe equipment.

Public Works Fund The Township received Issue I monies from the state for constructing, maintaining and repairing roads within the Township.

Basis of Accounting

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

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

Budgetary Process

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

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

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

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

A summary of 2016 budgetary activity appears in Note 3.

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)**

Deposits and Investments

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

Capital Assets

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

Accumulated Leave

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

Fund Balance

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

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.

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)**

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.

In addition to the above fund balance constraints, the Township has a General fund budget stabilization arrangement that does not meet the criteria to be classified as restricted or committed. Pursuant to Ohio Revised Code Section 5705.13, the Township established a budget stabilization by resolution to provide options to respond to unexpected issues and afford a buffer against shocks and other forms of risk such as revenue volatility, unexpected infrastructure failure, or disaster situations. Expenditures of a recurring nature are not addressed through the use of this arrangement. The Township Trustees authorized the funding of this arrangement as resources become available in the General fund. The fund balance should not exceed one-sixth of the expenditures during the preceding fiscal year. The intended balance in the reserve at December 31, 2016, is \$48,000.

Note 3 – Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$158,137	\$447,552	\$289,415
Special Revenue	243,233	247,290	4,057
Capital Projects	118,000	219,643	101,643
Total	\$519,370	\$914,485	\$395,115

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$410,453	\$347,103	\$63,350
Special Revenue	324,032	235,080	88,952
Capital Projects	118,000	144,643	(26,643)
Total	\$852,485	\$726,826	\$125,659

Note 4 – Deposits

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:

	2016
Demand deposits	\$374,342
Other time deposits (savings account)	329,307
Total deposits	\$703,649

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)**

Deposits

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

Note 5 – Property Taxes

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

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

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

Note 6 – Risk Management

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

The Township belongs to the Ohio Township Association Workers' Compensation Group Rating program who benefits from industry-leading discounts through a workers' compensation group rating program with CareWorksComp.

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

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)**

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2016.

	2016
Assets	\$38,473,283
Liabilities	8,244,140
Net Position	\$30,229,143

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$4,000.

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.

<u>2016 Contributions to OTARMA</u> \$9,636

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

Note 7 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

**Loudon Township
Seneca County**

**Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)**

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

Social Security

The Township's Fiscal Officer contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

The employee 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, 2016.

Note 8 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016.

Note 9 – Jointly Governed Organizations

The Bascom Joint Ambulance District is jointly governed organization. Loudon and Hopewell Townships appoint members to sit on the Ambulance District Board. The Ambulance District provides ambulance services within the district.

The Bascom Joint Fire Department is jointly governed organization. Loudon and Hopewell Townships appoint members to sit on the Fire District Board. The Fire District provides fire protection services within the district.

Note 10 – Encumbrances

The Township utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be report as part of restricted, committed, or assigned classifications of fund balance. At year end, the Township's commitments for encumbrances in the General fund were \$2,421.

Note 11 – Compliance

Contrary to the Ohio Rev. Code, the Township placed the proceeds from the sale of a permanent improvement fund in the wrong fund.

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Dave Yost • Auditor of State

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

Loudon Township
Seneca County
P.O. Box 630
Fostoria, Ohio 44830-0630

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of Loudon Township, Seneca County, Ohio (the Township) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated August 28, 2018, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial

statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-002.

Township's Responses to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

August 28, 2018

LOUDON TOWNSHIP
SENECA COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016

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

FINDING NUMBER 2017-001

Material Weakness

Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The Township's management is responsible for the fair presentation of the financial statements. In addition, Governmental Accounting Standards Board (GASB) Statement No. 54 requires in part, as codified at GASB Cod 1800.165 - .179, fund balance be divided into one of five classifications based on the extent to which constraints are imposed upon the resources.

Errors were noted in the financial statements, resulting in the following audit adjustments:

- Assigned fund balance in the Capital Projects fund of \$76,418 and \$136,000 in 2017 and 2018, respectively, was misclassified as restricted.
- In 2016, budgeted receipts reported in the notes to the financial statements were higher than the amended certificate of estimated resources in the Capital Projects fund by \$75,000.

These errors were the result of inadequate policies and procedures in reviewing the financial statements. Failure to complete accurate financial statements could lead to the Board making misinformed decisions. The accompanying financial statements, notes to the financial statements, and accounting records have been adjusted to correct these errors. Additional errors were noted that were below materiality and were included on the Summary of Identified Misstatements form.

To help ensure the Township's financial statements and notes to the statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes to the financial statements by the Fiscal Officer and Board, to identify and correct errors and omissions. The Fiscal Officer should also review the Township Handbook and Audit Bulletin 2011-004 for information on GASB Statement No. 54 and to help ensure that all accounts are being properly posted to the financial statements.

Officials' Response:

We reviewed the comment and will correct this in the future and will properly report assigned fund balance in the Capital Projects fund.

FINDING NUMBER 2017-002

Noncompliance and Material Weakness

Ohio Rev. Code § 5705.10(F) provides, in part, that except as provided in divisions (G) and (H) of this section, if a permanent improvement of the subdivision is sold, the amount received from the sale shall be paid into the sinking fund, the bond retirement fund, or a special fund for the construction or acquisition of permanent improvements.

During 2016, the Township incorrectly posted the proceeds from the sale of a mower and tractor totaling \$118,000 as a sale of capital asset receipt in the General fund. The receipts should have been classified as a sale of capital assets in the Permanent Improvement fund. Subsequently, the proceeds were used to purchase another mower and tractor which were incorrectly recorded in the General fund instead of the Permanent Improvement fund.

This error was due to inadequate policies and procedures over recording the proceeds from the sale of assets. The accompanying financial statements and accounting records have been adjusted to correct this error. Failure to record receipts in the proper fund could result in using funds for unallowable purposes.

To help ensure the Township's financial statements and notes to the statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Board to identify and correct errors and omissions. The Fiscal Officer can refer to the Ohio Township Handbook at the following web site address for guidance on the recording of transactions: <http://www.ohioauditor.gov/publications/FINALTownshipHandbook%203-22-17.pdf>.

Officials' Response:

We reviewed this comment and we believe we followed the correct procedures at the time to have the receipts from the sale of capital assets follow where the purchase was originally made. We will correct this in the future.



Dave Yost • Auditor of State

LOUDON TOWNSHIP

SENECA 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 11, 2018**