



Dave Yost • Auditor of State

**FRANKLIN TOWNSHIP
JACKSON COUNTY
DECEMBER 31, 2016 and 2015**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Franklin Township
Jackson County
199 Wastier Cherrington Road
Jackson, Ohio 45640

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 Franklin Township, Jackson County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015.

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 § 117.38 and Ohio Administrative Code § 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

As described in Note 2 of the 2016 financial statements and Note 1 of the 2015 financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 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 § 117.38 and Ohio Administrative Code § 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, 2016 and 2015, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of Franklin Township, Jackson County, Ohio, as of December 31, 2016 and 2015, and for the years then ended in accordance with the financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 117-2-03(D) permit, described in Note 2 of the 2016 financial statements and Note 1 of the 2015 financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, 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.



Dave Yost
Auditor of State
Columbus, Ohio

December 12, 2017

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Special Revenue	Capital Projects	Permanent	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$107,907	\$45,709	\$105,166	\$0	\$258,782
Intergovernmental	45,974	99,878	0	0	145,852
Earnings on Investments	120	0	0	7	127
Miscellaneous	2,285	0	0	0	2,285
<i>Total Cash Receipts</i>	<u>156,286</u>	<u>145,587</u>	<u>105,166</u>	<u>7</u>	<u>407,046</u>
Cash Disbursements					
Current:					
General Government	152,478	0	0	0	152,478
Public Safety	0	38,144	0	0	38,144
Public Works	0	64,547	68,170	0	132,717
<i>Total Cash Disbursements</i>	<u>152,478</u>	<u>102,691</u>	<u>68,170</u>	<u>0</u>	<u>323,339</u>
<i>Excess of Receipts Over Disbursements</i>	<u>3,808</u>	<u>42,896</u>	<u>36,996</u>	<u>7</u>	<u>83,707</u>
<i>Net Change in Fund Cash Balances</i>	<u>3,808</u>	<u>42,896</u>	<u>36,996</u>	<u>7</u>	<u>83,707</u>
<i>Fund Cash Balances, January 1</i>	<u>68,206</u>	<u>134,380</u>	<u>33,774</u>	<u>6,297</u>	<u>242,657</u>
Fund Cash Balances, December 31					
Nonspendable	0	0	0	5,000	5,000
Restricted	0	177,276	70,770	1,304	249,350
Unassigned	72,014	0	0	0	72,014
<i>Fund Cash Balances, December 31</i>	<u>\$72,014</u>	<u>\$177,276</u>	<u>\$70,770</u>	<u>\$6,304</u>	<u>\$326,364</u>

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

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Franklin Township
Jackson 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 Franklin Township, Jackson County, (the Township) as a body corporate and politic. A publicly elected three- member Board of Trustees directs the Township. The Township provides road and bridge maintenance, and cemetery maintenance. The Township contracts with the City of Jackson to provide fire protection.

Public Entity Risk Pool

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

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

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

Fire Fund The fire fund accounts for and reports that portion of property tax money to pay for fire protection within the Township

Franklin Township
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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:

Sales Tax Fund – The Township receives a monthly sales tax distribution from the County restricted for capital improvements and assets.

Permanent Funds These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Township had the following significant permanent fund:

Cemetery Bequest Fund– This fund receives interest revenue earned on the nonexpendable corpus from a bequest to be used for the maintenance of the Township cemetery

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 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 § 117.38 and Ohio Administrative Code § 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. A appropriations lapse at year-end.

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

Encumbrances The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2016 budgetary activity appears in Note 3.

Franklin Township
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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 three 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.

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

Note 3 - Compliance

Contrary to Ohio Rev. Code § 5705.38, the required appropriation resolution was filed with the County Auditor; however, approval of the appropriation resolution by the Trustees was not evidenced in the minutes.

Contrary to Ohio Rev. Code § 5705.41(B), budgetary expenditures exceeded appropriation authority in the General and Fire Funds by \$40,837 and \$2,144, respectively, for the year ended December 31, 2016.

Franklin Township
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 4 – Budgetary Activity

Budgetary activity for the year ending 2016 follows:

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$135,000	\$156,286	\$21,286
Special Revenue	143,000	145,587	2,587
Capital Projects	119,000	105,166	(13,834)
Permanent	10	7	(3)
Total	<u>\$397,010</u>	<u>\$407,046</u>	<u>\$10,036</u>

2016 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$111,641	\$152,478	(\$40,837)
Special Revenue	139,120	102,691	36,429
Capital Projects	110,000	68,170	41,830
Permanent	0	0	0
Total	<u>\$360,761</u>	<u>\$323,339</u>	<u>\$37,422</u>

Note 5 – 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:

	<u>2016</u>
Demand deposits	\$276,813
Certificates of deposit	49,551
Total deposits	<u>326,364</u>

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Township.

Note 6 – Property Taxes

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

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

Franklin Township
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 - Risk Management

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

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

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

Casualty and Property Coverage

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

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

Financial Position

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

	<u>2016</u>
Assets	\$38,473,283
Liabilities	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 \$2,000.

Franklin Township
Jackson County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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>
\$5600

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 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

All 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%, of their gross salaries and the Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

Note 9 – Postemployment Benefits

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

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Special Revenue	Capital Projects	Permanent	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	\$105,973	\$36,540	\$119,901	\$0	\$262,414
Intergovernmental	23,966	106,681	0	0	130,647
Earnings on Investments	85	0	0	6	91
Miscellaneous	5,826	20,093	0	0	25,919
<i>Total Cash Receipts</i>	<u>135,850</u>	<u>163,314</u>	<u>119,901</u>	<u>6</u>	<u>419,071</u>
Cash Disbursements					
Current:					
General Government	107,426	0	0	0	107,426
Public Safety	0	34,920	0	0	34,920
Public Works	0	103,798	109,986	0	213,784
Debt Service:					
Principal Retirement	0	0	14,193	0	14,193
<i>Total Cash Disbursements</i>	<u>107,426</u>	<u>138,718</u>	<u>124,179</u>	<u>0</u>	<u>370,323</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>28,424</u>	<u>24,596</u>	<u>(4,278)</u>	<u>6</u>	<u>48,748</u>
<i>Net Change in Fund Cash Balances</i>	28,424	24,596	(4,278)	6	48,748
<i>Fund Cash Balances, January 1</i>	<u>39,782</u>	<u>109,784</u>	<u>38,052</u>	<u>6,291</u>	<u>193,909</u>
Fund Cash Balances, December 31					
Nonspendable	0	0	0	5,000	5,000
Restricted	0	135,339	33,774	1,297	170,410
Unassigned	68,206	(959)	0	0	67,247
<i>Fund Cash Balances, December 31</i>	<u>\$68,206</u>	<u>\$134,380</u>	<u>\$33,774</u>	<u>\$6,297</u>	<u>\$242,657</u>

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

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**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 the Franklin Township, Jackson County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, and cemetery maintenance. The Township contracts with the City of Jackson to provide fire protection.

The Township participates in a public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool: OTARMA – A risk-sharing pool available to Ohio Townships, providing property and casualty coverage for its members.

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 permitted by the financial reporting provisions of Ohio Revised Code § 117.38 and Ohio Administrative Code § 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 § 117.38 and Ohio Administrative Code § 117-2-03(D) permit.

C. Deposits

The Township maintains an interest bearing checking account and values its certificate of deposits at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are 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.

2. 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:

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Special Revenue Funds (Continued)

Fire Fund - This fund receives property tax money to pay for the fire protection for the Township.

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

3. 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:

Sales Tax Fund - This fund receives sales tax money for permanent improvement projects within the Township.

4. Permanent Funds

These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Township had the following significant permanent fund:

Cemetery Bequest Fund - This fund receives interest revenue earned on the nonexpendable corpus from a bequest to be used for the maintenance of the Township cemetery.

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 canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

A summary of 2015 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into three 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 classifies 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. 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 (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.

H. 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.

2. EQUITY IN POOLED 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:

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

2. EQUITY IN POOLED DEPOSITS (Continued)

	2015
Demand deposits	\$193,106
Certificates of deposit	49,551
Total deposits	242,657

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Township

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$0	\$135,850	\$135,850
Special Revenue	0	163,314	163,314
Capital Projects	0	119,901	119,901
Permanent	0	6	6
Total	\$0	\$419,071	\$419,071

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$107,426	(\$107,426)
Special Revenue	0	138,718	(138,718)
Capital Projects	0	124,179	(124,179)
Permanent	0	0	0
Total	\$0	\$370,323	(\$370,323)

Contrary to Ohio Rev. Code § 5705.38, evidence did not exist the Trustees approved an appropriation resolution. Also, contrary to Ohio Rev. Code § 5705.41(B), budgetary expenditures exceeded appropriation authority in all funds for the year ended December 31, 2015.

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.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

5. RETIREMENT SYSTEM

The Township's elected officials and 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. For 2015, 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, 2015.

6. 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, 2015, 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, 2015

	<u>2015</u>
Assets	\$37,313,311
Liabilities	8,418,518
Net Position	\$28,894,793

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015
(Continued)**

6. RISK MANAGEMENT (Continued)

At December 31, 2015, respectively, the liabilities above include approximately \$7.8 million of estimated incurred claims payable. The assets above also include approximately \$7.7 million of unpaid claims to be billed to approximately 989 members in the future, as of December 31, 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Township's share of these unpaid claims collectible in future years is approximately \$3,000.

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>Contributions to OTARMA</u>
<u>2015</u>
\$5,319

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.



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*

Franklin Township
Jackson County
199 Wastier Cherrington Road
Jackson, Ohio 45640

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 Franklin Township, Jackson County, Ohio (the Township), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated December 12, 2017 wherein we noted the Township followed financial reporting provisions Ohio Revised Code § 117.38 and Ohio Administrative Code § 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 opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Entity'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 2016-004 through 2016-006 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2016-001 through 2016-006.

Entity's Response to Findings

The Township's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Township's responses 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 communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

December 12, 2017

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

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

FINDING NUMBER 2016-001

Noncompliance

Ohio Rev. Code § 5705.38 requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until no later than April 1.

For 2016, the Township Trustees approved the required appropriation resolution on February 15, 2016 and filed said resolution with the County Auditor. However, the approval was not documented in the minutes. For 2015, there was no documentation to indicate the Township Trustees approved an appropriation resolution.

Failure to document approval of appropriation measures in the minute record could result in misstated budgetary amounts in the financial statements and may render the action taken as invalid.

The Board of Trustees should approve an appropriation resolution on or about the first day of each fiscal year and document the approval in the minute record.

Official's Response: The Trustees are approving annual budgetary resolutions. The 2016 appropriations were approved. It was an oversight not documenting the approval in the minutes.

FINDING NUMBER 2016-002

Noncompliance

Ohio Rev. Code § 5705.41(B) prohibits subdivisions or taxing authorities from expending money unless it has been appropriated.

At December 31, 2015, expenditures exceeded appropriations as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Variance</u>
General	\$107,426	\$0	\$107,426
MVL	13,239	0	13,239
Gasoline Tax	90,559	0	90,559
Sales Tax	124,179	0	124,179
Fire	34,920	0	34,920

At December 31, 2016, expenditures exceeded appropriations as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Variance</u>
General	\$152,478	\$111,641	\$40,837
Fire	38,144	36,000	2,144

FRANKLIN TOWNSHIP
JACKSON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)

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

FINDING NUMBER 2016-002 (Continued)

Noncompliance – Ohio Rev. Code § 5705.41(B) (Continued)

The practice of allowing expenditures to exceed appropriations could result in negative fund balances for the Township.

The Fiscal Officer should compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Board of Trustees should adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Fiscal Officer should deny requests for payment when appropriations are not available.

Official's Response: The Township is now fully on UAN and will use the system budget vs. actual reports to update appropriations with Trustee approval.

FINDING NUMBER 2016-003

Noncompliance

Ohio Rev. Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

2. Blanket Certificates - Fiscal officers may prepare so-called "blanket" certificates not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2016-003 (Continued)

Noncompliance – Ohio Rev. Code § 5705.41(D)(1) (Continued)

3. Super Blanket Certificate - The Township may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

100% of disbursements tested during 2015 were not certified by the Fiscal Officer at the time the commitment was incurred and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to an obligation being incurred by the Township. When prior certification is not possible, "then and now" certification should be used.

The Board of Trustees should obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurred. The most convenient certification method is to use purchase orders that include the certification language § 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of § 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response: During 2016, the Township properly encumbered expenditures.

FINDING NUMBER 2016-004

Noncompliance and Material Weakness

Ohio Rev. Code § 5747.07(B) requires every employer required to deduct and withhold any state income tax under § 5747.06 of the Revised Code shall file a return and shall pay the amount required by law.

The Township did not remit \$1,828 and \$2,068 in state income taxes withheld for fiscal year 2015 and 2016, respectively. Also, the Township has not remitted \$2,165 in state income taxes withheld for 2014.

Failure to remit taxes timely could result in penalties being assessed and paid by the Township.

The Township should remit all state income tax withholdings timely. This matter will be referred to the Ohio Department of Taxation for whatever action deemed necessary.

Official's Response: Township is in progress of working with the State of Ohio to submit past due amounts.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

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

FINDING NUMBER 2016-005

Noncompliance and Material Weakness

Internal Revenue Code (IRC) Chapter 26 §§ 3401, 3402, 3403, 3404, 3405, and 3102(a) require the employing government to withhold federal, state, and local income and employment related taxes (such as Medicare). They also require the government to report and remit those tax matters to the appropriate tax authorities and to the recipients.

At December 31, 2016, the Township owed the Internal Revenue Service \$32,406 related to federal withholdings not paid including \$2,401 in penalties assessed in 2016.

<u>Year</u>	<u>Amount Owed</u>
2016	\$10,433
2015	10,980
2014	10,930
2013	63

No payments were made during 2015 and 2016. Failure to properly remit payroll taxes may lead to penalties, interest, and findings against the Township.

The 2016 and 2015 amounts noted above have been paid as of the end of the audit.

The Township should report the amounts withheld and remit the amounts to the proper authorities in the time frame prescribed by law. This matter will be referred to the Internal Revenue Service for whatever action deemed necessary.

Official's Response: The Township is working with the IRS to submit past due amounts.

FINDING NUMBER 2016-006

Noncompliance and Material Weakness

Ohio Admin. Code § 117-2-02(C)(1) provides that all public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations.

At December 31, 2015, estimated receipts as approved by the Budget Commission did not agree to the Township's accounting system. The variances and funds are as follows:

<u>Fund</u>	<u>Approved</u>	<u>UAN System</u>	<u>Variance</u>
General	\$0	\$140,366	\$140,366
MVL	0	10,200	10,200
Gasoline Tax	0	104,142	104,142
Sales Tax	0	94,250	94,250
Fire	0	41,200	41,200

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015
(Continued)**

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

FINDING NUMBER 2016-006 (continued)

Noncompliance and Material Weakness – Ohio Admin. Code § 117-2-02(C)(1) (Continued)

At December 31, 2015 and December 31, 2016, appropriations as approved by the Board of Trustees did not agree to the Township's accounting system. The variances and funds are as follows:

<u>Fund - 2015</u>	<u>Approved</u>	<u>UAN System</u>	<u>Variance</u>
General	\$0	\$137,753	\$137,753
MVL	0	13,239	13,239
Gasoline Tax	0	105,322	105,322
Sales Tax	0	132,193	132,193
Fire	0	36,000	36,000
<u>Fund - 2016</u>	<u>Approved</u>	<u>UAN System</u>	<u>Variance</u>
General	\$111,641	\$160,691	\$49,050
MVL	10,500	9,541	(959)
Fire	36,000	38,770	2,770

Due to budgetary information being improperly entered into the system, the management of the Township lost some degree of budgetary control. An adjustment was made to the budgetary activity reported in Note 3 to the financial statements in order to accurately present estimated receipts as approved by the Budget Commission and appropriations approved by the Board of Trustees.

The Fiscal Officer should accurately post estimated receipts as certified by the County Budget Commission and appropriations as approved by the Board, only after receiving approval. This procedure will help ensure more useful comparisons of budget versus actual activity, as well as provide management with an accurate monitoring tool throughout the year.

Official's Response: Now that UAN is fully implemented, the Township will use budget vs. actual reports to update estimated receipts.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	Ohio Admin. Code §§ 117-2-01(D)(3) and (5) Noncompliance/Material Weakness – Budgetary entries per appropriation and receipt ledgers did not reconcile to Board approved amounts.	Partially corrected.	UAN is fully functional and the Township will use budget vs actual reports to make periodic updates.
2014-002	Ohio Admin. Code § 117-2-02 Failed to maintain appropriation and receipt ledgers	Corrected.	
2014-003	Ohio Rev. Code § 117.38 Annual Report not filed within 60 days of the fiscal year-end.	Corrected.	
2014-004	Ohio Rev. Code § 145.47 Employee withholding and employer's portion were not remitted within thirty days of end of the reporting period.	Not corrected.	The Township will work with the appropriate agencies to resolve the matter.
2014-005	Ohio Rev. Code § 5705.39 appropriations exceeded estimated resources.	Partially corrected.	The Township will use UAN system reports to make periodic updates.
2014-006	Ohio Rev. Code § 5705.41 (D) (1) disbursements were not properly encumbered at the time of commitment.	Partially corrected.	Fully implemented purchase order system in 2016.
2014-007	Internal Revenue Code (IRC) Chapter 26 §3401, §3402, §3403, §3404, §3405, and §3102 – Federal taxes were not paid	Partially corrected.	The Township is working with the IRS to retire outstanding delinquencies.
2014-008	Material Weakness – Financial statements were not complete and accurate.	Corrected.	



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FRANKLIN TOWNSHIP

JACKSON 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
DECEMBER 26, 2017**