



OHIO AUDITOR OF STATE
KEITH FABER



**GRATIS TOWNSHIP
PREBLE COUNTY
DECEMBER 31, 2018 AND 2017**

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INDEPENDENT AUDITOR'S REPORT

Gratis Township
Preble County
6843 Pleasant Valley Road
Camden, Ohio 45311

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 Gratis Township, Preble County, Ohio (the Township) as of and for the years ended December 31, 2018 and 2017.

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, 2018 and 2017, 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 Gratis Township, Preble County as of December 31, 2018 and 2017, 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 January 27, 2020, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

January 27, 2020

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

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$28,958	\$345,458	\$0	\$374,416
Charges for Services	0	53,470	0	53,470
Licenses, Permits and Fees	11,808	45,608	0	57,416
Intergovernmental	23,682	157,658	0	181,340
Earnings on Investments	379	169	0	548
Miscellaneous	5,767	17,261	0	23,028
<i>Total Cash Receipts</i>	<u>70,594</u>	<u>619,624</u>	<u>0</u>	<u>690,218</u>
Cash Disbursements				
Current:				
General Government	48,869	239,362	0	288,231
Public Safety	0	53,470	0	53,470
Public Works	2,377	181,257	0	183,634
Health	10,549	71,482	0	82,031
Capital Outlay	1,000	12,973	0	13,973
Debt Service:				
Principal Retirement	0	23,998	0	23,998
Interest and Fiscal Charges	0	3,638	0	3,638
<i>Total Cash Disbursements</i>	<u>62,795</u>	<u>586,180</u>	<u>0</u>	<u>648,975</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>7,799</u>	<u>33,444</u>	<u>0</u>	<u>41,243</u>
Other Financing Receipts (Disbursements)				
Other Financing Sources	153	0	0	153
<i>Total Other Financing Receipts (Disbursements)</i>	<u>153</u>	<u>0</u>	<u>0</u>	<u>153</u>
<i>Net Change in Fund Cash Balances</i>	7,952	33,444		41,396
<i>Fund Cash Balances, January 1</i>	<u>74,450</u>	<u>406,091</u>	<u>4,581</u>	<u>485,122</u>
Fund Cash Balances, December 31				
Nonspendable	0	0	4,581	4,581
Restricted	0	302,932	0	302,932
Committed	0	136,603	0	136,603
Assigned	0	0	0	0
Unassigned (Deficit)	82,402	0	0	82,402
<i>Fund Cash Balances, December 31</i>	<u>\$82,402</u>	<u>\$439,535</u>	<u>\$4,581</u>	<u>\$526,518</u>

See accompanying notes to the basic financial statements

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Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Gratis Township, Preble County, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Village of Gratis to provide fire services and ambulance services and the West Elkton-Gratis Township Fire District to provide fire services.

Jointly Governed Organizations and Public Entity Risk Pools

The Township participates in a jointly governed organization, West Elkton-Gratis Township Fire District, and also participates in Ohio Township Association Risk Management Authority, Inc. (OTARMA), a public entity risk pool. Notes 10 and 11 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:

EMS Fund The EMS tax fund accounts for and reports the proceeds and disbursements of the Township’s Emergency Medical Service property tax levy.

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

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

Fire Fund This fund receives property tax money to pay for fire service for Township residents.

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2018
(Continued)

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:

Private Purpose Trust Fund The Township's private purpose trust fund is a cemetery bequest from which interest earned is used for the care of specific grave sites.

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 of Trustees recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

Budgetary Process

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

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

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

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

A summary of 2018 budgetary activity appears in Note 3.

Deposits

The Township values its Certificate of Deposit at cost.

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.

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2018
(Continued)

Accumulated Leave

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

Fund Balance

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

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

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

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

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

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

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

Note 3 – Budgetary Activity

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

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2018
(Continued)

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$50,938	\$70,747	\$19,809
Special Revenue	601,605	619,624	18,019
Permanent	10	0	(10)
Total	\$652,553	\$690,371	\$37,818

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$80,015	\$63,117	\$16,898
Special Revenue	716,496	588,383	128,113
Permanent	100	0	100
Total	\$796,611	\$651,500	\$145,111

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:

	2018
Demand deposits	\$522,118
Certificate of deposit	4,400
Total deposits	\$526,518

Deposits

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

Note 5 – Property Taxes

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

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

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

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2018
(Continued)

Note 6 – Risk Management

Risk Pool Membership

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

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

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

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

Note 7 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Township’s employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include 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, 2018.

Note 8 – Postemployment Benefits

Both OPERS and OP&F offer 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 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for OPERS members in the member-directed plan was 4.0 percent during calendar year 2018.

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2018
(Continued)

Note 9 – Debt

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

	Principal	Interest Rate
2015 Dump Truck	\$25,110	4.5%
2014 Tractor and Mower	25,853	4.4%
Gerber Promissory Notes	9,007	4.0%
Total	\$59,970	

The Dump Truck Loan is for the purchase of a 2015 International Dump Truck. The loan was entered into on January 25, 2016. The original purchase amount was \$43,295 and is being repaid in five annual installments of \$9,182, which includes interest, with a final principal payment due in 2021.

The Ford Tractor and Mower Loan is for the purchase of a 2014 Ford Tractor and Road Mower. The loan was entered into on March 1, 2015. The original purchase amount was \$60,799 and is being repaid in five annual installments of \$13,760, which includes interest, with a final principal payment due in 2020.

The Gerber Promissory Notes were issued to purchase land to expand the West Elkton cemetery. The land was purchased in June of 2014 for \$25,000 and is to be repaid in six annual installments of \$4,694, which includes interest, with final payment due in 2020.

Amortization

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

Year Ending December 31:	2015 Dump Truck	2014 Tractor and Mower	Gerber Family Promissory Notes
2019	9,182	13,760	4,694
2020	9,182	13,760	4,694
2021	9,182		
Total	\$27,546	\$27,520	\$9,388

Note 10 – Jointly Governed Organization

West Elkton-Gratis Township Fire District – The West Elkton-Gratis Township Fire District is a jointly governed organization between the Village of West Elkton and Gratis Township. The Fire District provides fire protection and emergency rescue services within the boundaries of the participating political subdivisions. Each of the participating political subdivisions appoints two members to the Fire District’s Board of Trustees, with the four appointed members self-appointing the fifth. Financial information can be obtained from Fiscal Officer Annie Adams at P.O. Box 151, West Elkton, Ohio 45070.

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2018
(Continued)

Note 11 – Public Entity Risk Pool

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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO.

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

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2018, 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.

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

	General	Special Revenue	Permanent	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$29,731	\$356,639	\$0	\$386,370
Charges for Services	0	58,479	0	58,479
Licenses, Permits and Fees	8,651	50,052	0	58,703
Intergovernmental	23,068	157,135	0	180,203
Earnings on Investments	334	152	0	486
Miscellaneous	1,084	16,300	0	17,384
<i>Total Cash Receipts</i>	<u>62,868</u>	<u>638,757</u>	<u>0</u>	<u>701,625</u>
Cash Disbursements				
Current:				
General Government	47,730	244,029	0	291,759
Public Safety	0	58,479	0	58,479
Public Works	1,537	140,837	0	142,374
Health	10,565	78,471	83	89,119
Capital Outlay	0	11,515	0	11,515
Debt Service:				
Principal Retirement	0	22,988	0	22,988
Interest and Fiscal Charges	0	4,648	0	4,648
<i>Total Cash Disbursements</i>	<u>59,832</u>	<u>560,967</u>	<u>83</u>	<u>620,882</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>3,036</u>	<u>77,790</u>	<u>(83)</u>	<u>80,743</u>
<i>Fund Cash Balances, January 1</i>	<u>71,414</u>	<u>328,301</u>	<u>4,664</u>	<u>404,379</u>
Fund Cash Balances, December 31				
Nonspendable	0	0	4,581	4,581
Restricted	0	275,412	0	275,412
Committed	0	130,679	0	130,679
Assigned	29,078	0	0	29,078
Unassigned (Deficit)	45,372	0	0	45,372
<i>Fund Cash Balances, December 31</i>	<u>\$74,450</u>	<u>\$406,091</u>	<u>\$4,581</u>	<u>\$485,122</u>

See accompanying notes to the basic financial statements

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Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

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Basis of Accounting

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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.

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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.

Deposits and Investments

The Township values its Certificate of Deposit at cost.

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.

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

Accumulated Leave

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

Fund Balance

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

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

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

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

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

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

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

Note 3 – Budgetary Activity

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

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$49,738	\$62,868	\$13,130
Special Revenue	600,605	638,757	38,152
Permanent	10		(10)
Total	<u>\$650,353</u>	<u>\$701,625</u>	<u>\$51,272</u>

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$96,430	\$60,177	\$36,253
Special Revenue	704,228	563,363	140,865
Permanent	100	83	17
Total	<u>\$800,758</u>	<u>\$623,623</u>	<u>\$177,135</u>

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:

	2017
Demand deposits	<u>\$480,722</u>
Certificate of deposit	<u>4,400</u>
Total deposits	<u><u>\$485,122</u></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 5 – Property Taxes

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

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

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

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

Note 6 – Risk Management

Risk Pool Membership

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, 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 \$3,868.

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

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>
\$8,972

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 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.

Note 8 – Postemployment Benefits

Both OPERS and OP&F offer 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 0 percent during calendar year 2017. The portion of employer contributions allocated to health care for OPERS members in the member-directed plan was 4.0 percent during calendar year 2017.

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

Note 9 – Debt

Debt outstanding at December 31, 2017, was as follows:

	Principal	Interest Rate
2015 Dump Truck	\$32,729	4.5%
2014 Tractor and Mower	37,992	4.4%
Gerber Promissory Notes	13,248	4.0%
Total	\$83,969	

The Dump Truck Loan is for the purchase of a 2015 International Dump Truck. The loan was entered into on January 25, 2016. The original purchase amount was \$43,295 and is being repaid in five annual installments of \$9,182, which includes interest, with a final principal payment due in 2021.

The Ford Tractor and Mower Loan is for the purchase of a 2014 Ford Tractor and Road Mower. The loan was entered into on March 1, 2015. The original purchase amount was \$60,799 and is being repaid in five annual installments of \$13,760, which includes interest, with a final principal payment due in 2020.

The Gerber Promissory Notes were issued to purchase land to expand the West Elkton cemetery. The land was purchased in June of 2014 for \$25,000 and is to be repaid in six annual installments of \$4,694, which includes interest, with final payment due in 2020.

Amortization

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

Year Ending December 31:	2015 Dump Truck	2014 Tractor and Mower	Gerber Family Promissory Notes
2018	\$9,182	\$13,760	\$4,694
2019	9,182	13,760	4,694
2020	9,182	13,760	4,694
2021	9,182		
Total	\$36,728	\$41,280	\$14,082

Note 10 – Jointly Governed Organization

West Elkton-Gratis Township Fire District – The West Elkton-Gratis Township Fire District is a jointly governed organization between the Village of West Elkton and Gratis Township. The Fire District provides fire protection and emergency rescue services within the boundaries of the participating political subdivisions. Each of the participating political subdivisions appoints two members to the Fire District’s Board of Trustees, with the four appointed members self-appointing the fifth. Financial information can be obtained from Fiscal Officer Annie Adams at P.O. Box 151, West Elkton, Ohio 45070.

Gratis Township
Preble County
Notes to the Financial Statements
For the Year Ended December 31, 2017
(Continued)

Note 11 – Public Entity Risk Pool

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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO.

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

APEEP provides OTARMA 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.

OHIO AUDITOR OF STATE KEITH FABER



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

Gratis Township
Preble County
6843 Pleasant Valley Road
Camden, Ohio 45311

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 Gratis Township, Preble County, (the Township) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements and have issued our report thereon dated January 27, 2020, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 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 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 a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of finding as item 2018-002.

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

January 27, 2020

GRATIS TOWNSHIP
PREBLE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2018 AND 2017

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

FINDING NUMBER 2018-001

Material Weakness – Financial Statement Errors

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 financial reporting for the years ended December 31, 2018 and 2017 contained the following material errors which required adjustment to the financial statements:

- **Auditor of State Bulletin 2011-004** states, in part, that when the appropriation measure is adopted for the subsequent year, and those appropriations exceed estimated receipts, the excess is to be assigned as it uses existing fund balance at year-end. This would be applicable only to the General Fund as it is the only fund with a positive unassigned fund balance. In 2017, the Township failed to properly classify the amount by which appropriations exceeded estimated receipts for the subsequent fiscal year. The Township also did not properly classify outstanding General Fund encumbrances at year end as assigned. As a result, the unassigned General Fund balance was overstated and the assigned General Fund balance was understated by \$29,078 in 2017.
- The Township also reported the Road and Bridge Fund as restricted in the amount of \$130,679 in 2017 and \$136,603 in 2018. However, this fund should be classified as committed as the Road and Bridge Fund's property tax levy is derived from inside millage. This resulted in an overstatement of restricted fund balance and an understatement of committed fund balance in the amount of \$130,679 and \$136,603, respectively.

The Township's financial reporting for the years ended December 31, 2018 and 2017 contained the following immaterial errors which did not require adjustment to the financial statements or accounting system:

- In 2018, \$4,172 of General Fund Licenses, Permits and Fees receipts was improperly classified as Miscellaneous Cash Receipts.
- In 2017, \$3,690 of Miscellaneous receipts in the Special Revenue Funds were improperly classified as Intergovernmental receipts.

The failure to correctly classify financial activity in the accounting records and financial statements may impact the user's understanding of the financial operations and could result in materially misstated reports.

The Township should implement policies and procedures to provide for accurate and complete recording of financial activity and balances in the accounting records and financial statements to assist in the effective management and reporting of financial resources.

Officials' Response:

Officials did not provide a response to this finding.

FINDING NUMBER 2018-002

Noncompliance – Trustee Payroll Certifications

Ohio Rev. Code § 505.24(C) states, in part, by unanimous vote, “a board of township trustees may adopt a method of compensation consisting of an annual salary to be paid in equal monthly payments. The amount of the annual salary approved by the board shall be no more than the maximum amount that could be received annually by a trustee if the trustee were paid on a per diem basis as specified in this division, and shall be paid from the township general fund or from other township funds in such proportions as the board may specify by resolution. Each trustee shall certify the percentage of time spent working on matters to be paid from the township general fund and from other township funds in such proportions as the kinds of services performed.”

The Trustees did not properly certify their time spent on various Township activities during several months throughout the audit period. Some certifications provided for audit did not contain the percentage of time spent on Township activities. Without the certifications required by the Ohio Revised Code, all elected officials should be paid from the General Fund. The Trustees approved a retro-active resolution on February 19, 2020, to document the percentage of time spent on Township activities. Since the Trustees approved a retro-active resolution no adjustments to the financial statements or accounting system were required.

Prior to the retro-active resolution, the following variances occurred for the year ended December 31, 2018:

Fund	Payroll to Be Charged	Actual Payroll Charged	Variance Over / (Under)
General	\$7,107		(\$7,107)
Gas Tax (Special Revenue)		\$775	\$775
Road and Bridge (Special Revenue)		\$5,425	\$5,425
Cemetery (Special Revenue)		\$907	\$907

Prior to the retro-active resolution, the following variances occurred for the year ended December 31, 2017:

Fund	Payroll to Be Charged	Actual Payroll Charged	Variance Over / (Under)
General	\$22,502		(\$22,502)
Gas Tax (Special Revenue)		\$6,327	\$6,327
Road and Bridge (Special Revenue)		\$13,302	\$13,302
Cemetery (Special Revenue)		\$2,873	\$2,873

**Finding Number 2018-002
(Continued)**

The Township should implement procedures to verify elected officials' compensation is properly allocated based upon the Ohio Revised Code requirements and certifications prepared by Township officials. Further, the Township should implement procedures to verify department managers and key employees' compensation is allocated in accordance with the approved allocation schedule and consistent with actual work performed. Failure to do so could result in misstated financial statements, overspending of the Township's budget, and findings for adjustment in future audits.

Officials' Response:

Officials did not provide a response to this finding.

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OHIO AUDITOR OF STATE KEITH FABER



GRATIS TOWNSHIP

PREBLE 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
MARCH 19, 2020**