



Dave Yost • Auditor of State

**UNION TOWNSHIP
PUTNAM COUNTY
DECEMBER 31, 2016 AND 2015**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Union Township
Putnam County
P.O. Box 632
Kalida, Ohio 45853

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 Union Township, Putnam 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 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, 2016 and 2015, 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 Union Township, Putnam County, Ohio as of December 31, 2016 and 2015, 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 April 4, 2018, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

April 4, 2018

**UNION TOWNSHIP
PUTNAM 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	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$55,046	\$133,708		\$188,754
Intergovernmental	26,435	111,433	\$12,000	149,868
Charges for Services		8,337		8,337
Fines, Licenses and Permits	556	200		756
Earnings on Investments	1,714	150		1,864
Miscellaneous	4,925	300		5,225
<i>Total Cash Receipts</i>	<u>88,676</u>	<u>254,128</u>	<u>12,000</u>	<u>354,804</u>
Cash Disbursements				
Current:				
General Government	78,018			78,018
Public Safety	228	18,175		18,403
Public Works	4,815	218,653	12,000	235,468
Health	2,761	748		3,509
<i>Total Cash Disbursements</i>	<u>85,822</u>	<u>237,576</u>	<u>12,000</u>	<u>335,398</u>
<i>Net Change in Fund Cash Balances</i>	2,854	16,552		19,406
<i>Fund Cash Balances, January 1</i>	<u>573,384</u>	<u>450,426</u>	<u>25,000</u>	<u>1,048,810</u>
Fund Cash Balances, December 31				
Restricted		336,947	25,000	361,947
Committed		130,031		130,031
Unassigned	576,238			576,238
<i>Fund Cash Balances, December 31</i>	<u><u>\$576,238</u></u>	<u><u>\$466,978</u></u>	<u><u>\$25,000</u></u>	<u><u>\$1,068,216</u></u>

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

**UNION TOWNSHIP
PUTNAM 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 Union Township, Putnam 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 Villages of Kalida, Columbus Grove, and Glandorf to provide fire protection services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), public entity risk pool. OTARMA provides property and casualty coverage for its members. Note 7 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:

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

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

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:

Issue II Fund – The Township received a grant from the state for capital improvements. The proceeds are restricted for capital improvement.

**UNION TOWNSHIP
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Basis of Accounting

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

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

Budgetary Process

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

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

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

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

A summary of 2016 budgetary activity appears in Note 4.

Deposits and Investments

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

Capital Assets

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

Accumulated Leave

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

**UNION TOWNSHIP
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

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 – Compliance

Contrary to Ohio law, in 2016:

- The Township distributed monies improperly between Township funds; and
- Township records were destroyed and not retained as required.

**UNION TOWNSHIP
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

Note 4 – Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$81,788	\$88,676	\$6,888
Special Revenue	256,777	254,128	(2,649)
Capital Project		12,000	12,000
Total	\$338,565	\$354,804	\$16,239

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$655,172	\$85,892	\$569,280
Special Revenue	732,203	251,803	480,400
Capital Project	12,000	12,000	
Total	\$1,399,375	\$349,695	\$1,049,680

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:

	2016
Demand deposits	\$1,068,216

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

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.

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.

**UNION TOWNSHIP
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

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.

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

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$2,000.

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.

**UNION TOWNSHIP
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Continued)**

<u>2016 Contributions to OTARMA</u>
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\$5,373

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 Plan

Ohio Public Employees Retirement System

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

Note 10 – Miscellaneous Revenue

Miscellaneous revenue in the General Fund in 2016 primarily consisted of payments in lieu of taxes.

Note 11 – Subsequent Events

In 2017, the Township received an Ohio Public Works Commission (OPWC) grant in the amount of \$14,000 for a township road project, with \$45,399 being paid by the Township for this project.

**UNION TOWNSHIP
PUTNAM 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	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$53,502	\$130,472		\$183,974
Intergovernmental	29,900	112,447		142,347
Charges for Services		8,488		8,488
Fines, Licenses and Permits	400			400
Earnings on Investments	357	77		434
Miscellaneous	7,575	1,586		9,161
<i>Total Cash Receipts</i>	<u>91,734</u>	<u>253,070</u>		<u>344,804</u>
Cash Disbursements				
Current:				
General Government	82,667			82,667
Public Safety	9	27,109		27,118
Public Works		131,225		131,225
Health	11,741			11,741
Capital Outlay	10,100	84,069		94,169
<i>Total Cash Disbursements</i>	<u>104,517</u>	<u>242,403</u>		<u>346,920</u>
<i>Excess of Receipts Over/(Under) Disbursements</i>	<u>(12,783)</u>	<u>10,667</u>		<u>(2,116)</u>
Other Financing Receipts				
Sale of Capital Assets			\$25,000	25,000
<i>Net Change in Fund Cash Balances</i>	(12,783)	10,667	25,000	22,884
<i>Fund Cash Balances, January 1</i>	<u>586,167</u>	<u>439,759</u>		<u>1,025,926</u>
Fund Cash Balances, December 31				
Restricted		355,891	25,000	380,891
Committed		94,535		94,535
Assigned	573,384			573,384
<i>Fund Cash Balances, December 31</i>	<u>\$573,384</u>	<u>\$450,426</u>	<u>\$25,000</u>	<u>\$1,048,810</u>

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

**UNION TOWNSHIP
PUTNAM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Union Township, Putnam 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 Villages of Kalida, Columbus Grove, and Glandorf to provide fire protection services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), public entity risk pool. OTARMA provides property and casualty coverage for its members. Note 7 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:

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

Special Levy Fund – This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

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:

Permanent Improvement Fund – The Township received proceeds from the sale of an asset.

**UNION TOWNSHIP
PUTNAM COUNTY**

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

Basis of Accounting

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

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

Budgetary Process

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

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

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

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

A summary of 2015 budgetary activity appears in Note 4.

Deposits and Investments

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

Capital Assets

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

Accumulated Leave

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

Fund Balance

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

**UNION TOWNSHIP
PUTNAM COUNTY**

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

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 – Compliance

Contrary to Ohio law, in 2015:

- Proceeds from the sale of an asset were not posted to a Capital Project Fund as required; and
- Township records were destroyed and not retained as required.

Note 4 – 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	\$79,476	\$91,734	\$12,258
Special Revenue	244,255	253,070	8,815
Capital Project		25,000	25,000
Total	\$323,731	\$369,804	\$46,073

**UNION TOWNSHIP
PUTNAM COUNTY**

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

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$665,643	\$104,517	\$561,126
Special Revenue	684,014	355,403	328,611
Total	\$1,349,657	\$459,920	\$889,737

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:

	2015
Demand deposits	\$1,048,810

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

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.

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

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

Note 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, 2015, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

**UNION TOWNSHIP
PUTNAM COUNTY**

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

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

At December 31, 2015, 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 member governments 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>2015 Contributions to OTARMA</u>
\$4,908

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 Plan

Ohio Public Employees Retirement System

The Township's elected officials and employee belongs 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.

**UNION TOWNSHIP
PUTNAM COUNTY**

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

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, 2015.

Note 9 – Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes a multiple health care plan 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 OPER members in the Traditional Pension Plan and Combined Plan was 2.0 percent during 2015.

Note 10 – Miscellaneous Revenue

Miscellaneous revenue in the General Fund in 2015 primarily consisted of payments in lieu of taxes.

Note 11 – Subsequent Events

In 2016, the Township received an Ohio Public Works Commission (OPWC) grant in the amount of \$12,000 for a township road project, with \$94,780 being paid by the Township for this project.



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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

Union Township
Putnam County
P.O. Box 632
Kalida, Ohio 45853

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 Union Township, Putnam 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 April 4, 2018, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 through 2016-007 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 2016-005 through 2016-007.

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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

Columbus, Ohio

April 4, 2018

**UNION TOWNSHIP
PUTNAM COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Material Weakness – Financial Reporting

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

Accurate financial reporting is essential to ensure the information provided to the readers of the financial statements accurately reflects the Township's activity.

The Township lacked a policy regarding financial review which contributed to the following errors:

- In 2016, the Township posted a gas tax receipt twice and then posted an expenditure to the General Fund to try and correct the double posting. This resulted in overstating Gas Tax Fund revenues and overstating General Fund expenditures by \$4,700.
- In 2016, the Township was the beneficiary of \$12,000 of Ohio Public Works Commission (OPWC) money sent directly to the vendor. The Fiscal Officer did not record this activity to a Capital Projects Fund in the accounting system.
- The Township's 2016 outstanding encumbrances were overstated by \$60,500 in the Special Revenue Funds due to paying the 2016 road program costs in 2017 on a 2017 purchase order instead of the 2016 purchase order designated for that purpose.
- In the 2016 budgetary note, appropriations were overstated by \$476,655 in the Special Revenue Funds.
- In the 2015 budgetary note, appropriations were understated by \$92,259 and \$208,588 in the General and Special Revenue Funds, respectively.
- In the 2015 budgetary note, budgeted receipts were overstated by \$506,691 and \$195,502 in the General and Special Revenue Funds, respectively.
- In the 2015 budgetary note, actual receipts were overstated by \$481,650 and \$222,356 in the General and Special Revenue Funds, respectively.

As a result, the Township's financial statements did not correctly reflect the financial activity of the Township. Adjusting entries were posted to the financial statements to correct these and other errors, ranging from \$38 to \$573,384. Additional unadjusted errors were noted in smaller relative amounts.

We recommend that the Fiscal Officer post all transactions in accordance with the guidance established by the Uniform Accounting Network manual. We also recommend the Fiscal Officer review Auditor of State Bulletin 2000-008 for information about On-Behalf-of payments to help ensure that all activity is being properly posted to the financial statements. Further, the Township should adopt policies and procedures including a final review of the financial statements by the Fiscal Officer and Trustees to ensure that errors and omissions are detected and corrected.

FINDING NUMBER 2016-002

Material Weakness - Cash Reconciliations

In order for management to properly monitor the activity of the Township, transactions must be posted correctly and the bank accounts must be reviewed to detect errors. The monthly reconciliation of bank account balances to the accounting system's ending fund balances is an important method in detecting errors in the postings of receipts and disbursements and bank account records. After the reconciliation is completed, any errors found should be immediately corrected.

Failure to post transactions in correct amounts resulted in reconciling errors called "other adjusting factors" on the Township's monthly cash reconciliation prepared by the Fiscal Officer. These "other adjusting factors" ranged in amounts from \$9 to \$675 and occurred from May 2016 through December 2016.

These posting errors went undetected and uncorrected due to the Fiscal Officer not providing the Township Trustees with the cash reconciliations or bank statements to conduct a sufficient review of the financial data. The lack of monitoring bank reconciliations by the Trustees does not provide adequate segregation of duties or compensating controls and could result in errors or fraud occurring without detection.

In an effort to help ensure financial activity of the Township is being properly accounted for and reported, we recommend:

- The Fiscal Officer post all receipts and disbursements in correct amounts.
- The Fiscal Officer present the monthly bank reconciliations to the Township Trustees as evidence that all bank balances have been reconciled to the UAN fund balance total each month without significant adjusting factors on the reconciliation.
- Township Trustees periodically verify items appearing on the monthly bank reconciliation, including, but not limited to authentication of bank account balances, outstanding checks and deposits in transit. The Fiscal Officer's monthly bank reconciliations should be reviewed, initialed, and approved in the minutes by the Township Trustees.
- Township Trustees review receipt reports, disbursement reports, and monthly fund balances to determine if transactions are being posted in a timely manner and to the correct line items and funds.

FINDING NUMBER 2016-003

Material Weakness – Trustee Review of Records

Segregation of duties provides two significant benefits: (1) a deliberate fraud is more difficult because it requires collusion of two or more persons and (2) it is more likely an error will be detected. Proper segregation of duties is not possible when only one or two people handle all four aspects of the internal control cycle, (record keeping, authorization, custody and reconciliation.)

The Township Fiscal Officer is responsible for processing and entering all Township transactions. The Trustee's review of reports showing support for the information entered is necessary to detect errors or irregularities, provide an effective checks and balance system, sufficiently monitor Township finances, and effectively safeguard the public's interests.

In 2016, the Trustees were not provided with the monthly reports produced by the Township's Uniform Accounting Network (UAN) system. Also they did not review the invoices supporting payments being made. Combined, this resulted in insufficient monitoring of the Township's finances in 2016. Insufficient monitoring could result in errors and irregularities or fraud occurring and not being timely detected.

Due to the size of the Township, segregating every function may not be financially feasible, however, careful consideration of which functions need to be separated should be completed. The Township Trustees should review their procedures and where possible take steps to include involvement of employees from another department handling one of the functions, levels of approval and review of the record keeping, authorization, custody, and reconciliation of accounts.

In addition, for those cycles for which segregation of duties is not possible, the Trustees should implement additional monitoring control and take an active role in the operations of the Township, including, review of the following, at a minimum, to effectively monitor Township finances:

- Bank reconciliation summary
- Appropriation summary
- Fund summary
- Revenue summary
- Payment listing
- Payroll summary

These reports are listed on the UAN signature page report. This signature page report can be printed and signed by the Trustees monthly to document their review.

Trustees should also be provided with the following, at a minimum, when reviewing the above reports and signing checks to effectively monitor transactions:

- Supporting bank statements for the monthly reconciliation,
- Supporting documentation for the receipts,
- Supporting invoices for the payments, and
- Time sheets for payroll.

In addition, all reports and supporting documentation should be retained for audit and future reference.

FINDING NUMBER 2016-004

Material Weakness – Fund Balance Classifications

Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, introduces five fund balance classifications and clarifies the existing governmental fund type definitions. The fund balance classifications relate to constraints placed upon the use of resources reported in governmental funds. The five classifications are nonspendable, restricted, committed, assigned, and unassigned.

Assigned fund balance classification includes amounts that are constrained by the Township's intent to be used for specific purposes, but are neither restricted nor committed. In accordance with GASB Cod. 1800.176, when the appropriation measure is adopted for the subsequent year, if a portion of existing fund balance is included as a budgetary resource, then that portion of fund balance should be classified as assigned. This would be applicable to the General Fund as it is the only fund with a positive unassigned fund balance.

The Township appropriated \$573,384 more for the subsequent year than they estimated receiving in taxes and other sources. The accompanying financial statement for 2015 has been adjusted to reflect the appropriate subsequent year assigned fund balance.

Also, the Road and Bridge Fund has a tax levy within the 10 mill limitation, therefore its fund balance of \$130,031 and \$94,535, in 2016 and 2015 respectively, should have been posted as committed instead of restricted. The financial statements have been adjusted to correct these errors.

This was the result of inadequate policies and procedures in reviewing the financial statements. We recommend the Township review GASB 54 and Auditor of State Bulletin 2011-004 to help ensure their fund balances are properly reported.

FINDING NUMBER 2016-005

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 149.351 states, in part, that all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred or otherwise damaged or disposed of, in whole or in part, except as provided by law or under rules adopted by the records commission provided under sections 149.38 to 149.42 of the Revised Code.

All records, except for Uniform Accounting Network backups, for the period January 1, 2016 through September 30, 2017 were destroyed. The records destroyed included vouchers/invoices, receipts, bank statements, timesheets, leave records, payroll withholding forms, and all other documents created or received by the Township. The minutes from January 1, 2015 through September 30, 2017, as well as previous years were also destroyed. The destroyed minutes likely contained approval of pay rates, budgetary measures, and other important actions taken by the Board of Trustees. We had the Township obtain copies of invoices, bank statements and performed alternate procedures over payroll to substantiate the amounts presented.

Lack of minute records to document all Trustee approved actions hinders the Township's operations and negates any decisions made by the Trustees. A complete and accurate minute record is necessary to document all actions taken by the Township's governing body over the course of time.

Lack of adequate documentation to support payroll expenditures could result in payments to employees not intended by the Trustees or not earned by employees. Lack of documentation to support withholdings and authorizations could result in discrepancies and noncompliance as to withholdings and required remittances.

In addition, lack of documentation of receipts and disbursements hinders the review process and could result in errors and irregularities occurring without detection.

We recommend that all Township records be maintained in accordance the Ohio Revised Code and the Township's record retention schedule.

FINDING NUMBER 2016-006

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.10(C) requires all revenue derived from a special levy be credited to a special fund for the purpose for which the levy was made. The following errors were noted:

- In 2016, homestead and rollback payments of \$13,443 were improperly posted to the General Fund when they should have been distributed to the Road and Bridge Fund and the Special Levy Fire Fund in the amounts of \$9,110 and \$4,333 respectively.
- In 2016, property taxes of \$7,942 were improperly distributed to the Road and Bridge Fund and the Special Levy Fire Fund in the amounts of \$5,927 and \$2,015, respectively, when they should have been posted to the General Fund.

The lack of a policy regarding financial review contributed to the above errors occurring without detection. The accounting records and financial statements were adjusted to reflect these misstatements.

Improper posting of revenues could cause management to draw incorrect conclusions regarding the Township's fiscal position. Financial activity should be properly posted in the accounting ledgers so that the Trustees can better assess whether financial goals are being met on an ongoing basis. As part of the monitoring process, Trustees should review financial records to make sure that amounts are reflected in the appropriate funds and that there are sufficient funds to pay obligations.

FINDING NUMBER 2016-007

Noncompliance Citation and Material Weakness

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

During 2015, the Township incorrectly posted the proceeds from the sale of a truck for \$25,000 as intergovernmental revenue in the Road and Bridge Fund. This receipt should have been classified as a sale of capital assets in the Permanent Improvement Fund. This error was due to insufficient monitoring by management. The accompanying financial statements and accounting records have been adjusted to correct this error.

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

Officials' Response:

We did not receive a response from Officials to the findings reported above.

**UNION TOWNSHIP
PUTNAM COUNTY**

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

Finding Number	Finding Summary	Status	Additional Information
2014-001	Material weakness for lack of monitoring of financial transactions due to errors in the financial statements.	Not Corrected. Reissued as Finding 2016-001 in this report.	The Township declined to offer an explanation why the finding reoccurred or what corrective action they may anticipate.

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UNION TOWNSHIP

PUTNAM 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
JULY 12, 2018