

MCKEAN TOWNSHIP
LICKING COUNTY
REGULAR AUDIT
JANUARY 1, 2016 – DECEMBER 31, 2016





Dave Yost • Auditor of State

Board of Trustees
McKean Township
1260 Sportsman Club Rd NW
Newark, OH 43055

We have reviewed the *Independent Auditor's Report* of the McKean Township, Licking County, prepared by Wilson, Shannon & Snow, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The McKean Township is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

September 5, 2018

**MCKEAN TOWNSHIP
LICKING COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor’s Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2016.....	3
Notes to the Financial Statement	4
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	11
Schedule of Findings.....	13
Schedule of Prior Audit Findings.....	17
Corrective Action Plan.....	18

INDEPENDENT AUDITOR'S REPORT

McKean Township
Licking County
1260 Sportsman Club Road NW
Newark, Ohio 43055

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statement of the cash balances, receipts and disbursements by fund type, and related notes of McKean Township, Licking County, Ohio (the Township) as of and for the year ended December 31, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting this financial statement 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 this financial statement 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 statement is 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 statement, the Township prepared this financial statement 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.

McKean Township
Licking County
Independent Auditor's Report

Although the effects on the financial statement 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 this statement 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 statement referred to above does 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 the respective changes in financial position thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of McKean Township, Licking County, as of December 31, 2016, for the year 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 June 28, 2018, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

Wilson, Shuman & Snow, Inc.

June 28, 2018
Newark, Ohio

**MCKEAN TOWNSHIP
LICKING COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES**

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Permanent</u>	
Cash Receipts:					
Local Taxes	\$ 41,997	\$ 315,610	\$ 22,837	\$ -	\$ 380,444
Intergovernmental	27,348	131,798	-	-	159,146
Licenses, Permits, and Fees	10,420	-	-	-	10,420
Earnings on Investments	386	194	-	3	583
Other Revenue	225	1,553	-	-	1,778
	<u>80,376</u>	<u>449,155</u>	<u>22,837</u>	<u>3</u>	<u>552,371</u>
Cash Disbursements:					
Current:					
General Government	71,247	-	-	-	71,247
Public Safety	-	196,865	-	-	196,865
Public Works	-	452,804	-	-	452,804
Debt Service:					
Redemption of Principal	-	33,678	22,837	-	56,515
Interest and Fiscal Charges	-	1,655	-	-	1,655
	<u>71,247</u>	<u>685,002</u>	<u>22,837</u>	<u>-</u>	<u>779,086</u>
Total Receipts Over (Under) Disbursements	<u>9,129</u>	<u>(235,847)</u>	<u>-</u>	<u>3</u>	<u>(226,715)</u>
Other Financing Receipts and (Disbursements):					
Sale of Notes	-	250,000	-	-	250,000
Other Financing Uses	(3,000)	-	-	-	(3,000)
	<u>(3,000)</u>	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>247,000</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	6,129	14,153	-	3	20,285
Fund Cash Balances, January 1	<u>37,090</u>	<u>107,992</u>	<u>-</u>	<u>264</u>	<u>145,346</u>
Fund Cash Balances, December 31	<u>\$ 43,219</u>	<u>\$ 122,145</u>	<u>\$ -</u>	<u>\$ 267</u>	<u>\$ 165,631</u>
Fund Cash Balance, December 31					
Nonspendable	\$ -	\$ -	\$ -	\$ 100	\$ 100
Restricted	-	122,145	-	167	122,312
Assigned	6,664	-	-	-	6,664
Unassigned	36,555	-	-	-	36,555
Fund Cash Balance, December 31	<u>\$ 43,219</u>	<u>\$ 122,145</u>	<u>\$ -</u>	<u>\$ 267</u>	<u>\$ 165,631</u>

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

MCKEAN TOWNSHIP
LICKING 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 McKean Township, Licking 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. Fire protection and emergency medical services are provided by Granville and Monroe Townships.

Public Entity Risk Pools

The Township participates in the Ohio Plan Risk Management, Inc., a public entity risk pool. Note 6 to the financial statements provides additional information for this entity. The Township's management believes this financial statement presents all activities for which the Township is financially accountable.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Township's financial statement consists of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for its fiduciary fund type which is organized on a fund type basis.

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:

Road and Bridge Fund The road and bridge fund accounts for and reports that portion of voted real estate taxes and intergovernmental revenues restricted for maintenance and repair of roads within the Township.

Fire District Fund The fire fund accounts for and reports that portion of voted real estate taxes and intergovernmental revenues restricted for fire operations and emergency services within and outside the Township.

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

MCKEAN TOWNSHIP
LICKING COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Road and Bridge Debt Retirement Fund The road and bridge debt retirement fund accounts for unvoted property taxes for the retirement of debt issued to finance public improvements.

Fiduciary Funds This fund accounts for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following Permanent Fund:

Cemetery Endowment Fund This fund receives interest which may only be used for general maintenance and upkeep of the Township's cemetery.

Basis of Accounting

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

This statement includes 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 appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year-end.

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

Encumbrances The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are canceled and reappropriated in the subsequent year.

A summary of 2016 budgetary activity appears in Note 3.

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. The Township did not have investments during 2016.

MCKEAN TOWNSHIP
LICKING COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (Continued)

Capital Assets

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

Accumulated Leave

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

Fund Balance

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

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

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

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

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

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

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.

MCKEAN TOWNSHIP
LICKING COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 3 – Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$74,943	\$80,376	\$5,433
Special Revenue	464,250	699,155	234,905
Debt Service	250,000	22,837	(227,163)
Permanent	3	3	0
Total	\$789,196	\$802,371	\$13,175

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$112,033	\$74,247	\$37,786
Special Revenue	828,949	685,002	143,947
Debt Service	22,837	22,837	0
Permanent	166	0	166
Total	\$963,985	\$782,086	\$181,899

The Township had appropriations exceeding estimated resources in the Road and Bridge and Fire District Special Revenue Funds contrary to Ohio Revised Code Section 5705.39.

Note 4 – Deposits

The Township maintains a deposit pool all funds use and the Ohio Revised Code prescribes allowable deposits. The carrying amount of deposits at December 31 was as follows:

	2016
Total Demand Deposits	\$165,631

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Note 5 – Property Taxes

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

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

MCKEAN TOWNSHIP
LICKING COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 6 – Risk Management

The Township belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2016:

	<u>2016</u>
Assets	\$14,765,712
Liabilities	<u>(9,531,506)</u>
Members' Equity	<u>\$ 5,234,206</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

MCKEAN TOWNSHIP
LICKING COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
2011 Road Equipment Bonds	\$6,592	4.56%
2016 Tax Anticipation Note	208,079	3.14%
OPWC - Sunnyside Road Resurfacing	40,716	0.00%
Total	\$255,387	

The Township debt is supported by the full faith and credit of the Township and is payable from unvoted property tax receipts and intergovernmental receipts from the Road and Bridge, Gasoline Tax and Debt Service Funds to the extent that other resources are not available to meet annual principal payments.

Leases

In 2014, the Township entered into a five year lease for the purchase of a Caterpillar Hydraulic Excavator at a cost of \$59,165 at 2.49% annum requiring monthly payments of \$1,058.62. The Excavator is collateralized by Gas Tax Fund revenues.

The outstanding principal and interest amounts represent the Township’s obligations at December 31, 2016:

Year Ended December 31:	2011 Road Equipment Bonds	2016 Tax Anticipation Note	OPWC	Excavator Lease	Total
2017	\$6,742	\$70,145	\$1,850	\$12,703	\$91,440
2018	0	40,980	1,850	12,703	55,533
2019	0	40,980	1,850	9,106	51,936
2020	0	40,980	1,850	0	42,830
2021	0	34,458	1,850	0	36,308
2022-2026	0	0	9,250	0	9,250
2027-2031	0	0	9,250	0	9,250
2032-2036	0	0	9,250	0	9,250
2037-2041	0	0	3,716	0	3,716
Total	\$6,742	\$227,543	\$40,716	\$34,512	\$309,513

MCKEAN TOWNSHIP
LICKING COUNTY
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Some 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, 2016.

Note 9 – Postemployment Benefits

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

Note 10 – Contingent Liabilities

The Township is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Township's financial condition.

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

McKean Township
Licking County
1260 Sportsman Club Road NW
Newark, Ohio 43055

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 statement of the cash balances, receipts, and disbursements by fund type of McKean Township, Licking County, (the Township) as of and for the year ended December 31, 2016, and the related notes to the financial statement and have issued our report thereon dated June 28, 2018 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2016-002 to be significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statement is 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 is described in the accompanying schedule of findings as items 2016-001 and 2016-003 through 2016-005.

Township's Response to Findings

The Township's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the Township's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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

Wilson, Shuman & Snow, Inc.

June 28, 2018
Newark, Ohio

**MCKEAN TOWNSHIP
LICKING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

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

Finding Number	2016-001
----------------	----------

Ohio Revised Code Section 117.38 states, in part, that each public office shall file a financial report for each fiscal year. The Auditor of State (AOS) may prescribe forms by rule or may issue guidelines, or both, for such reports. However, if the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

The report shall contain the following: (A) amount of collections and receipts, and accounts due from each source; (B) amount of expenditures for each purpose, (C) income of any public service industry owned or operated by a municipal corporation, and the cost of such ownership or operation; and (D) amount of public debt of each taxing district, the purpose of the debt, and how the debt will be repaid.

The notes to the financial statements required significant revisions, which were agreed to by Township management and are reflected in the accompanying notes to the financial statements. We noted the following:

- The Summary of Significant Accounting Policies – Fund Accounting note did not properly identify the significant Special Revenue funds and omitted the Township’s Debt Service fund.
- The Equity in Pooled Deposits note did not properly identify or record demand deposits.
- The Budgetary Activity note did not include proper amounts for Budgeted Receipts, Actual Receipts, Appropriation Authority, and Budgetary Expenditures. In addition, the Budgetary Activity note did not include the heading for Budgeted vs. Actual Budgetary Basis Expenditures and did not include Permanent fund activity.
- The Debt note principal balances outstanding were not correct and an amortization schedule was not prepared.
- Material note disclosures were not made, including lease payments outstanding.

The Township did not have an internal control process in place to help ensure the notes to the financial statements filed on the Auditor of State of Ohio HINKLE system were complete and accurate. The Township should file complete and accurate annual financial reports with the Auditor of State. The Township should utilize the financial statement and footnote shells available on the Auditor of State of Ohio website at <http://www.ohioauditor.gov/references/shells.html> to help ensure all material note disclosures are included in the financial reporting package.

Finding Number	2016-002
----------------	----------

Financial Reporting

All local public offices should maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

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

Finding Number	2016-002 (Continued)
----------------	----------------------

Auditor of State Bulletin 2015-007 *Required “Annual Financial Report Filing by Public Offices and Other Entities Required to File”* provides comprehensive guidance related to required annual financial report filings by public offices required to file, including the completeness and accuracy of the financial statements and notes to the financial statements filed with the AOS HINKLE system.

Testing of the 2016 cash basis financial statement and notes to the financial statements filed with the AOS HINKLE system identified the following discrepancies:

- Auditor of State Bulletin 2011-004 provides guidance on the implementation of Governmental Accounting Standards Board Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions, specifically the proper presentation of fund balances as nonspendable, restricted, committed, assigned and unassigned. An audit reclassification of \$6,664 was required within the General Fund to properly present assigned fund balance and \$100 within the Permanent Fund to properly present nonspendable fund balance at December 31, 2016.
- Audit reclassifications were necessary to properly present local taxes, fees, permits and fees and other revenue of \$844, \$6,050, and \$224, respectively, which were recorded as other financing sources by the Township.
- Debt principal and interest payments of \$33,678 and \$1,655 were reclassified from public works disbursements within the Special Revenue Fund.
- As noted in Finding 2016-004, the Township incorrectly recorded payroll related disbursements within the Motor Vehicle License Tax and Road and Bridge Special Revenue Funds contrary to the General Fund totaling \$1,596.

We recommend the Township develop procedures to review the presentation of its fund balances within the UAN accounting system prior to finalizing its year-end financial statements and filing the Township’s financial statements and notes to the financial statements with the AOS HINKLE system.

Finding Number	2016-003
----------------	----------

Ohio Revised Code section 5705.39 provides in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate. At December 31, 2016, appropriations exceeded estimated resources in the following funds:

Special Revenue Funds	Estimated Resources	Appropriations	Noncompliance
Road and Bridge Fund	\$209,127	\$457,100	\$247,973
Fire District Fund	191,407	200,294	8,887

**MCKEAN TOWNSHIP
LICKING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

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

Finding Number	2016-003 (Continued)
----------------	----------------------

Ohio Revised Code section 5705.39 – (Continued)

We recommend that the Township update the accounting records throughout the year when budgetary data is modified so that the Township is accurately recording budgetary activity and search for potential noncompliance and amend budgetary documents as needed. We recommend the Township file appropriation amendments with the County Auditor’s Office to certify appropriations do not exceed estimated resources. By updating the accounting records and obtaining the County Auditor certification, the City may reduce the likelihood of noncompliance with laws and regulations.

Finding Number	2016-004
----------------	----------

Ohio Revised Code Section 5705.10(D) states all revenue derived from a source other than the general property tax and which the law prescribes, shall be used for a particular purpose is to be paid into a special fund.

In 2016, a portion of the federal, state and local taxes related to the Township Trustee's salaries, Ohio Public Employees Retirement System, and Workers Compensation was paid from the Motor Vehicle License Tax Fund of \$896. A portion of the Township’s Trustee’s salaries related to Ohio Public Employees Retirement System of \$700 was paid from the Road and Bridge Fund. However, Township Trustee’s salaries were paid from the General Fund.

Audit adjustments in favor of the Motor Vehicle License Tax and Road and Bridge Funds against the General Fund have been posted to the Township’s accounting records and reflected in the accompanying financial statements of \$896 and \$700, respectively.

The Township should implement procedures to ensure that withholdings associated with the Township Trustees salaries are charged to the correct fund.

Finding Number	2016-005
----------------	----------

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the Fiscal Officer is attached thereto. The Fiscal Officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. There are several exceptions to the standard requirement stated above that a Fiscal Officer’s certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: “then and now” certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**MCKEAN TOWNSHIP
LICKING COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016**

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

Finding Number	2016-005 (Continued)
----------------	----------------------

Ohio Revised Code Section 5705.41(D)(1) – (Continued)

1. “Then and Now” certificate - If the Fiscal Officer can certify that both at the time that the contract or order was made (“then”), and at the time that the Fiscal Officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority (Board of Trustees) can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the “then and now” certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the Fiscal Officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

2. Blanket Certificate – The Fiscal Officer may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any particular line item appropriation.

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

69% of the 2016 transactions tested for the audit period were not certified by the Fiscal Officer at the time the commitment was incurred and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

**MCKEAN TOWNSHIP
LICKING COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2015-001	Financial Statement Presentation.	No	Repeated as Finding 2016-002.
2015-002	Recording On-Behalf Transactions.	Yes	NA.
2015-003	Ohio Revised Code Section 5705.41(B).	Yes	NA.

**McKean Township
Licking County
1260 Sportsman Club Road NW
Newark, Ohio 43055**

**MCKEAN TOWNSHIP
LICKING COUNTY**

**CORRECTIVE ACTION PLAN
DECEMBER 31, 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2016-001	The Township will determine the financial statements and notes to the financial statements are complete and accurate.	December 31, 2018	Phyllis Ellas, Fiscal Officer
2016-002	The Township will review the monthly financial information in order to verify all transactions are properly posted and reflected in the Township's accounting records.	December 31, 2018	Phyllis Ellas, Fiscal Officer
2016-003	The Township will verify that appropriations do not exceed estimated resources for future budgets.	December 31, 2018	Phyllis Ellas, Fiscal Officer
2016-004	The Township will properly match withholdings and benefits to salaries paid for elected officials.	December 31, 2018	Phyllis Ellas, Fiscal Officer
2016-005	The Township will monitor disbursements to verify proper certification of funds.	December 31, 2018	Phyllis Ellas, Fiscal Officer



Dave Yost • Auditor of State

MCKEAN TOWNSHIP

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER, 18 2018**