

**MCKEAN TOWNSHIP
LICKING COUNTY, OHIO**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018



OHIO AUDITOR OF STATE
KEITH FABER



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Board of Trustees
McKean Township
2367 Lundys Lane
Newark, Ohio 43055

We have reviewed the *Independent Auditor's Report* of McKean Township, Licking County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2018 through December 31, 2019. 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. McKean Township is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

December 1, 2020

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**MCKEAN TOWNSHIP
LICKING COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2019 and 2018**

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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 statements of the cash balances, receipts and disbursements by fund type, and related notes of McKean Township, Licking County, (the Township) as of and for the years ended December 31, 2019 and 2018.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating of the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for 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 determined, 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, 2019 and 2018, and the changes in financial position 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 the related notes of McKean Township, Licking County, as of December 31, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 11 to the 2019 financial statements, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Township. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2020, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the effectiveness of the Township's 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.



Charles E. Harris & Associates, Inc.
September 15, 2020

**MCKEAN TOWNSHIP
LICKING COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
All Governmental Fund Types
For the Year Ended December 31, 2019**

	<u>Governmental Fund Types</u>			<u>Totals- (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Receipts:				
Property and Other Local Taxes	\$ 46,232	\$ 372,002	\$ -	\$ 418,234
Intergovernmental	28,886	154,983	-	183,869
Licenses, Permits and Fees	13,694	24	-	13,718
Earnings on Investments	3,259	1,378	3	4,640
Total Receipts	92,071	528,387	3	620,461
Disbursements:				
Current:				
General Government	84,213	-	-	84,213
Public Safety	-	172,361	-	172,361
Public Works	-	215,436	-	215,436
Health	5,398	-	-	5,398
Human Services	-	1,249	-	1,249
Capital Outlay	-	74,330	-	74,330
Debt Service:				
Principal Retirement	-	70,472	-	70,472
Interest and Fiscal Charges	-	2,902	-	2,902
Total Disbursements	89,611	536,750	-	626,361
Excess of Receipts Over/(Under) Disbursements	2,460	(8,363)	3	(5,900)
Other Financing Receipts (Disbursements)				
Sale of Bonds	-	53,000	-	53,000
Sale of Capital Assets	-	3,000	-	3,000
Total Other Financing Receipts (Disbursements)	-	56,000	-	56,000
Net Change in Fund Cash Balances	2,460	47,637	3	50,100
Fund Cash Balance, January 1, 2019	64,662	136,008	272	200,942
Nonspendable	-	-	100	100
Restricted	-	183,645	175	183,820
Assigned	57,138	-	-	57,138
Unassigned	9,984	-	-	9,984
Fund Cash Balance, December 31, 2019	\$ 67,122	\$ 183,645	\$ 275	\$ 251,042

See Accompanying Notes to the Financial Statements.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the 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 Pool

The Township participates in the Ohio Plan Risk Management, Inc., a public entity risk pool. 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 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:

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

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

Fire District Fund The fire district 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.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 2 – Summary of Significant Accounting Policies – (continued)

Fund Accounting – (continued)

Permanent 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

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, department or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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 2019 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.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2019

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. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget in the General Fund.

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.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 3 – Compliance

Contrary to Ohio law, budgetary disbursements exceeded appropriation authority in the Road and Bridge fund for the year ended 2019.

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2019 follows:

2019 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$77,979	\$92,071	\$14,092
Special Revenue	495,935	584,387	88,452
Permanent	3	3	-

2019 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$114,682	\$89,611	\$25,071
Special Revenue	561,722	538,184	23,538
Permanent	175	-	175

Note 5 – Deposits and Investments

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

Demand deposits	2019 \$251,042
Total Deposits	\$251,042

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation, and collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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 non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 6 – Property Taxes – (continued)

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.

Note 7 – 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. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. The OPRM is also participated in a property primary excess of loss treaty. This treaty reimbursed the OPRM 30% for losses between \$200,000 and \$1,000,000. The reimbursement is based on the amount of loss between \$200,000 and \$1,000,000. Effective November 1, 2018, the OPRM the property retention remained unchanged, however, the Plan assumed 100% of the first \$250,000 casualty treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. Effective November 1, 2019, the OPRM's property retention increased from 30% to 33%, while the casualty treaty remains unchanged and still assumes 100% of the first \$250,000 casualty treaty. OPRM had 776 members as of December 31, 2019.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2019.

Assets	\$ 15,920,504
Liabilities	<u>(11,329,011)</u>
Members' Equity	<u>\$ 4,591,493</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, 2019

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 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, 2019.

Note 9 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0.0 percent during calendar year 2019.

Note 10 – Debt

Debt outstanding at December 31, 2019, was as follows:

	Principal	Interest Rate
2017 Equipment Bonds	\$ 30,174	3.30%
2016 Tax Anticipation Notes	12,050	3.14%
OPWC Sunnyside Road Surfacing	35,164	0.00%
2019 Equipment Bonds	50,195	3.39%
Total	\$127,583	

The Township issued \$53,000 Township Equipment Bonds to acquire a truck and related equipment. The bonds bear interest at 3.39% and are payable in monthly installments of \$1,550.

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 and Gasoline Tax 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 Township disbursed \$9,529 to pay lease costs for the year ended December 31, 2019.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2019

Note 10 – Debt – (continued)

Amortization

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

Year Ending December 31:	2017 Equipment Bonds	2016 Tax Anticipation Note	OPWC	2019 Equipment Bonds
2020	\$10,873	\$12,145	\$1,850	\$18,600
2021	10,873	-	1,850	18,600
2022	9,968	-	1,850	15,500
2023	-	-	1,850	-
2024	-	-	1,850	-
2025-2029	-	-	9,250	-
2030-2034	-	-	9,250	-
2035-2038	-	-	7,414	-
Total	<u>\$31,714</u>	<u>\$12,145</u>	<u>\$35,164</u>	<u>\$52,700</u>

Note 11 – Subsequent Event

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Township. The impact on the Township’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**MCKEAN TOWNSHIP
LICKING COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
All Governmental Fund Types
For the Year Ended December 31, 2018**

	<u>Governmental Fund Types</u>			<u>Totals- (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Receipts:				
Property and Other Local Taxes	\$ 45,655	\$ 363,723	\$ -	\$ 409,378
Intergovernmental	30,646	137,383	-	168,029
Licenses, Permits and Fees	9,840	647	-	10,487
Earnings on Investments	1,940	919	3	2,862
Miscellaneous	1,044	-	-	1,044
	<u>89,125</u>	<u>502,672</u>	<u>3</u>	<u>591,800</u>
Total Receipts	89,125	502,672	3	591,800
Disbursements:				
Current:				
General Government	76,632	-	-	76,632
Public Safety	-	190,303	-	190,303
Public Works	-	200,603	-	200,603
Health	612	-	-	612
Human Services	-	900	-	900
Debt Service:				
Principal Retirement	-	88,615	-	88,615
Interest and Fiscal Charges	-	5,071	-	5,071
Total Disbursements	<u>77,244</u>	<u>485,492</u>	<u>-</u>	<u>562,736</u>
Net Change in Fund Cash Balances	11,881	17,180	3	29,064
Fund Cash Balance, January 1, 2018	<u>52,781</u>	<u>118,828</u>	<u>269</u>	<u>171,878</u>
Nonspendable	-	-	100	100
Restricted	-	136,008	172	136,180
Assigned	36,683	-	-	36,683
Unassigned	27,979	-	-	27,979
Fund Cash Balance, December 31, 2018	<u>\$ 64,662</u>	<u>\$ 136,008</u>	<u>\$ 272</u>	<u>\$ 200,942</u>

See Accompanying Notes to the Financial Statements.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 1 – Reporting Entity

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McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 – Summary of Significant Accounting Policies – (continued)

Fund Accounting – (continued)

Permanent 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:

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

Budgetary Process

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

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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 canceled and reappropriated in the subsequent year.

A summary of 2018 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.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 2 – Summary of Significant Accounting Policies – (continued)

Capital Assets

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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. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget in the General Fund.

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.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 3 – Compliance

Contrary to Ohio law, budgetary disbursements exceeded appropriation authority in the Fire District fund for the year ended 2018.

Note 4 – Budgetary Activity

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

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$67,339	\$89,125	\$21,786
Special Revenue	478,434	502,672	24,238
Permanent	3	3	-

2018 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$82,050	\$77,244	\$4,806
Special Revenue	520,788	485,492	35,296
Permanent	3	-	3

Note 5 – Deposits

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

Demand deposits	2018 \$200,942
Total Deposits	\$200,942

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

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 non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 6 – Property Taxes – (continued)

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.

Note 7 – 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. 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. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2018, the OPRM the property retention remained unchanged, however, the Plan assumed 100% of the first \$250,000 casualty treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 members as of December 31, 2018.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2018.

Assets	\$15,065,412
Liabilities	<u>(10,734,623)</u>
Members' Equity	<u>\$ 4,330,789</u>

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

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2018.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 8 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0.0 percent during calendar year 2018.

Note 9 – Debt

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

	Principal	Interest Rate
2017 Equipment Bonds	\$39,862	3.30%
2016 Tax Anticipation Notes	68,178	3.14%
OPWC - Sunnyside Road Surfacing	37,015	0.00%
Total	\$145,055	

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 and Gasoline Tax 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 Township disbursed \$12,703 to pay lease costs for the year ended December 31, 2018.

McKean Township
Licking County
Notes to the Financial Statements
For the Year Ended December 31, 2018

Note 9 – Debt – (continued)

Amortization

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

Year Ending December 31:	2017 Equipment Bonds	2016 Tax Anticipation Note	OPWC	Excavator Lease
2019	\$10,873	\$40,980	\$1,850	\$9,259
2020	10,873	13,652	1,850	-
2021	10,873	-	1,850	-
2022	9,968	-	1,850	-
2023	-	-	1,850	-
2024-2028	-	-	9,250	-
2019-2033	-	-	9,250	-
2034-2038	-	-	9,265	-
Total	<u>\$42,587</u>	<u>\$54,632</u>	<u>\$37,015</u>	<u>\$9,259</u>

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the cash balances, receipts, and disbursements by fund type of McKean Township, Licking County, (the Township) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2020, wherein we noted that the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Township.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings as items 2019-001 through 2019-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free from material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings as items 2019-004 and 2019-005.

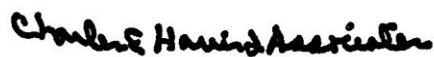
We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated September 15, 2020.

Entity's Responses 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

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
September 15, 2020

MCKEAN TOWNSHIP
LICKING COUNTY

Schedule of Audit Findings
December 31, 2019 and 2018

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

Finding Number 2019-001 – Material Weakness

Notes to the Financial Statements

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 for 2018 and 2019 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.
- 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 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.

Management's Response:

See Corrective Action Plan on page 26.

MCKEAN TOWNSHIP
LICKING COUNTY

Schedule of Audit Findings
December 31, 2019 and 2018

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

Finding Number 2019-002 – Material Weakness

Audit Adjustments and Reclassifications

During 2019 and 2018, errors were noted in the Township's financial statements that required audit adjustments, and reclassifications, the most significant of which are as follows:

- The amount by which general fund subsequent year appropriations exceeded estimated resources was not presented as an assignment of fund balance in the amount of \$36,683 and \$57,138 for 2018 and 2019, respectively. Additionally, \$100 was not properly reflected as nonspendable in the permanent fund for both years.
- Rollback and homestead receipts were recorded as real estate taxes instead of intergovernmental receipts in the amount of \$20,648 for 2019.
- In 2019, a receipt of \$6,845 for rollback and homestead receipts were erroneously recorded to the Fire District Fund rather than the Road and Bridge Fund.
- Debt service principal payments of \$88,615 in 2018 and \$70,472 in 2019 and interest payments of \$5,071 in 2018 and \$2,902 in 2019 which were classified as public works were reclassified.
- In 2019, the sale of bonds of \$53,000 was erroneously recorded as other financing sources.
- In 2019, \$4,480 in payroll taxes were erroneously recorded to health.
- In 2019, the cost of purchasing a truck for \$74,330 was reclassified from public works to capital outlay.
- In 2018 and 2019, \$4,112 and \$1,396, respectively, of other financing sources was reclassified to intergovernmental and licenses, permits and fees.
- In 2018 there were a total 15 cash transactions that were unrecorded or recorded in error that netted to a reduction in cash of \$70. In 2019, there were thirteen unrecorded cash transactions which netted to a net negative adjustment to cash of \$2,208.
- In 2018 and 2019, \$1,838 and \$2,495, respectively, of other financing uses was reclassified to general government and health.

The accompanying financial statements and the Township's records have been adjusted to properly reflect these transactions.

Sound financial reporting is the responsibility of the Township and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. We recommend the Township adopt policies and procedures to identify and correct errors and omissions in a timely manner. Management can use Governmental Accounting Standards Board Statement No. 54, Audit Bulletin 2001-004, the Ohio Township Handbook, the Uniform Accounting Network Manual, and other Auditor of State guidance to aid in properly identifying account classifications and preparing annual financial statements.

Management's Response:

See Corrective Action Plan on page 26.

MCKEAN TOWNSHIP
LICKING COUNTY

Schedule of Audit Findings
December 31, 2019 and 2018

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

Finding Number 2019-003 – Material Weakness

Bank Reconciliations

The Fiscal Officer did not prepare accurate monthly reconciliations of bank balances to book balances. There were significant numbers of reconciling items and other adjusting factors that were not identified. The lack of proper reconciliations among the bank statements and ledgers resulted in numerous errors which remained undetected and/or uncorrected until the audit. The extensive problems with these reconciliations resulted in the need for the Township to obtain assistance from Local Government Services.

We recommend the Fiscal Officer prepare detailed bank reconciliations that include all bank account balances being reconciled to total fund balances, with support for all reconciling items or other adjusting factors. Bank reconciliations should be presented to the Board for review and use in managing the Township.

Management's Response:

See Corrective Action Plan on page 26.

Finding Number 2019-004 – Material Noncompliance

Expenditures Exceeded Appropriations

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated. We noted the following funds had expenditures plus encumbrances that exceeded appropriations at December 31, 2018 and 2019:

2018

Fund	Approved Appropriations	Budgetary Disbursements	Variance
Fire District Fund	\$186,488	\$190,303	\$(3,815)

2019

Fund	Approved Appropriations	Budgetary Disbursements	Variance
Road and Bridge Fund	\$198,979	\$214,022	\$(15,043)

Expenditures for each fund should not exceed appropriations. Failure to follow approved budgets could lead to overspending and the possibility of negative fund balances. To ensure expenditures do not exceed appropriations, the Township should monitor its financial activity periodically and amend its approved budgets accordingly.

Management's Response:

See Corrective Action Plan on Page 26.

MCKEAN TOWNSHIP
LICKING COUNTY

Schedule of Audit Findings
December 31, 2019 and 2018

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

Finding Number 2019-005 – Non Compliance

In connection with our testing of expenditures and payroll, we noted the Township was not remitting payroll taxes on a timely basis. Internal Revenue Code 26 U.S.C. Sections 3401-3406 as well as various state and local laws require the timely remittance of withheld and employer payroll taxes. Contrary to these requirements, the Township did not remit some of its 2017 tax year remittances until 2018. In addition, the Township did not remit the 2018 and 2019 school district taxes withheld.

We recommend that the Township prepare and remit all required tax returns in a timely manner for compliance with the Ohio Revised Code and to avoid late fees and penalties.

Management's Response:

See Corrective Action Plan on page 26.

MCKEAN TOWNSHIP
LICKING COUNTY
For the Years Ended December 31, 2019 and 2018

SCHEDULE OF PRIOR AUDIT FINDINGS-PREPARED BY MANAGEMENT

FINDING NUMBER	FINDING SUMMARY	STATUS	ADDITIONAL INFORMATION
2017-001	Ohio Revised Code Section 117.38 - Notes to the Financial Statements	Not corrected	See Corrective Action Plan
2017-002	Financial Reporting	Not corrected	See Corrective Action Plan
2017-003	Ohio Revised Code Section 5705.39 – Appropriations Must Not Exceed Total Estimated Resources	Corrected	
2017-004	Ohio Revised Code Section 5705.10(D)	Corrected	
2017-005	Ohio Revised Code Section 5705.41(D)(1) – Certificates Signed by Fiscal Officer for Expenditures	Corrected	

**MCKEAN TOWNSHIP
LICKING COUNTY
For the Years Ended December 31, 2019 and 2018**

CORRECTIVE ACTION PLAN – PREPARED BY MANAGEMENT

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2019-001	The Township will determine the financial statements and notes to the financial statements are complete and accurate.	December 31, 2020	Phyllis Ellas, Fiscal Officer
2019-002	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, 2020	Phyllis Ellas, Fiscal Officer
2019-003	The Township will complete detailed bank reconciliations properly on a timely basis and present them to the Board for approval.	December 31, 2020	Phyllis Ellas, Fiscal Officer
2019-004	The Township will review budget information on a regular basis to ensure expenditures do not exceed appropriations.	December 31, 2020	Phyllis Ellas, Fiscal Officer
2019-005	The Township will remit taxes on a timely basis.	Immediately	Phyllis Ellas, Fiscal Officer

OHIO AUDITOR OF STATE KEITH FABER



MCKEAN TOWNSHIP

LICKING COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/15/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov