

428 Second St.
Marietta, OH 45750
740.373.0056

1035 Murdoch Ave
Parkersburg, WV 26101
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121 E Main St
St. Clairsville, OH 43950
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Certified Public Accountants, A.C.

**CHESTER TOWNSHIP
CLINTON COUNTY
Regular Audit**

For the Years Ended December 31, 2014 and 2013

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...“bringing more to the table”

Tax– Accounting – Audit – Review – Compilation – Agreed Upon Procedure – Consultation – Bookkeeping – Payroll
Litigation Support – Financial Investigations

Members: American Institute of Certified Public Accountants

- Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •
- Association of Certified Anti - Money Laundering Specialists •



Dave Yost • Auditor of State

Board of Trustees
Chester Township
5606 St Rt 380
Wilmington, OH 45177

We have reviewed the *Independent Auditor's Report* of Chester Township, Clinton County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2013 through December 31, 2014. 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. Chester Township is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

December 16, 2015

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**CHESTER TOWNSHIP
CLINTON COUNTY**

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INDEPENDENT AUDITOR'S REPORT

October 23, 2015

Chester Township
Clinton County
5606 State Route 380
Wilmington, Ohio 45177

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of **Chester Township, Clinton County**, (the Township) as of and for the years ended December 31, 2014 and 2013.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no 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.

...***"bringing more to the table"***...

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- Association of Certified Anti - Money Laundering Specialists •

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

As described in Note 1B of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Township does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2014 and 2013, or changes in financial position thereof for the years then ended.

Basis for Additional Opinion Qualification

Township records did not support the Fund, Program or Object codes that were used for 41% of the Special Revenues disbursements tested for 2013.

We were unable to obtain sufficient and appropriate audit evidence to determine the accuracy of the financial statement classifications of disbursements. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Additional Opinion Qualification

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the combined special revenue fund cash balances of Chester Township, Clinton County, Ohio as of December 31, 2013, and its combined cash receipts and disbursements 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 1B.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the General, Capital Projects and Permanent funds cash balances of Chester Township, Clinton County, Ohio, as of December 31, 2014 and 2013 and Special Revenue funds as of December 31, 2014, and its combined cash receipts and disbursements for the years 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 1B.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2015, 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.

A handwritten signature in black ink that reads "Perry & Associates CPAs A.C." in a cursive script.

Perry & Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**CHESTER TOWNSHIP
CLINTON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

| | General | Special Revenue | Permanent | Totals (Memorandum Only) |
|---|-------------------|--------------------|---------------|--------------------------------|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$ 73,674 | \$ 275,251 | \$ - | \$ 348,925 |
| Charges for Services | - | 40,753 | - | 40,753 |
| Licenses, Permits and Fees | - | 6,514 | - | 6,514 |
| Intergovernmental | 19,711 | 150,609 | - | 170,320 |
| Earnings on Investments | 86 | 45 | - | 131 |
| Miscellaneous | 6,667 | 5,099 | - | 11,766 |
| <i>Total Cash Receipts</i> | <u>100,138</u> | <u>478,271</u> | <u>-</u> | <u>578,409</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| General Government | 110,661 | - | - | 110,661 |
| Public Safety | - | 226,436 | - | 226,436 |
| Public Works | - | 215,960 | - | 215,960 |
| Health | 1,802 | 11,219 | - | 13,021 |
| Debt Service: | | | | |
| Principal Retirement | 7,600 | 11,400 | - | 19,000 |
| Interest and Fiscal Charges | 10,960 | 16,440 | - | 27,400 |
| <i>Total Cash Disbursements</i> | <u>131,023</u> | <u>481,455</u> | <u>-</u> | <u>612,478</u> |
| <i>Net Change in Fund Cash Balances</i> | (30,885) | (3,184) | - | (34,069) |
| <i>Fund Cash Balances, January 1</i> | <u>262,487</u> | <u>133,643</u> | <u>306</u> | <u>396,436</u> |
| Fund Cash Balances, December 31 | | | | |
| Nonspendable | - | - | 306 | 306 |
| Restricted | - | 130,459 | - | 130,459 |
| Unassigned | 231,602 | - | - | 231,602 |
| <i>Fund Cash Balances, December 31</i> | <u>\$ 231,602</u> | <u>\$ 130,459</u> | <u>\$ 306</u> | <u>\$ 362,367</u> |

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

**CHESTER TOWNSHIP
CLINTON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

| | General | Special Revenue | Capital Projects | Permanent | Totals (Memorandum Only) |
|---|-------------------|--------------------|---------------------|---------------|--------------------------------|
| Cash Receipts | | | | | |
| Property and Other Local Taxes | \$ 74,673 | \$ 281,029 | \$ - | \$ - | \$ 355,702 |
| Charges for Services | - | 35,702 | - | - | 35,702 |
| Licenses, Permits and Fees | - | 6,750 | - | - | 6,750 |
| Intergovernmental | 77,715 | 157,885 | - | - | 235,600 |
| Earnings on Investments | 135 | 17 | - | - | 152 |
| Miscellaneous | 12,746 | 18,231 | - | - | 30,977 |
| <i>Total Cash Receipts</i> | <u>165,269</u> | <u>499,614</u> | <u>-</u> | <u>-</u> | <u>664,883</u> |
| Cash Disbursements | | | | | |
| Current: | | | | | |
| General Government | 146,692 | 211,409 | - | - | 358,101 |
| Public Safety | - | 25,268 | - | - | 25,268 |
| Public Works | 1,981 | 186,262 | - | - | 188,243 |
| Health | 3,588 | 24,170 | - | - | 27,758 |
| Capital Outlay | 33,249 | - | 901,205 | - | 934,454 |
| Debt Service: | | | | | |
| Principal Retirement | 3,885 | 39,050 | - | - | 42,935 |
| Interest and Fiscal Charges | 5,062 | 10,864 | - | - | 15,926 |
| <i>Total Cash Disbursements</i> | <u>194,457</u> | <u>497,023</u> | <u>901,205</u> | <u>-</u> | <u>1,592,685</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | (29,188) | 2,591 | (901,205) | | (927,802) |
| Other Financing Receipts (Disbursements) | | | | | |
| Other Debt Proceeds | - | - | 900,000 | - | 900,000 |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>-</u> | <u>-</u> | <u>900,000</u> | <u>-</u> | <u>900,000</u> |
| <i>Net Change in Fund Cash Balances</i> | (29,188) | 2,591 | (1,205) | - | (27,802) |
| <i>Fund Cash Balances, January 1</i> | <u>291,675</u> | <u>131,052</u> | <u>1,205</u> | <u>306</u> | <u>424,238</u> |
| Fund Cash Balances, December 31 | | | | | |
| Nonspendable | - | - | - | 306 | 306 |
| Restricted | - | 133,643 | - | - | 133,643 |
| Unassigned | 262,487 | - | - | - | 262,487 |
| <i>Fund Cash Balances, December 31</i> | <u>\$ 262,487</u> | <u>\$ 133,643</u> | <u>\$ -</u> | <u>\$ 306</u> | <u>\$ 396,436</u> |

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

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Chester Township, Clinton County, Ohio (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services.

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

Public Entity Risk Pool

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. 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).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits

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.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for in another fund.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

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

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

Fire Levy Fund – This fund receives proceeds from the property tax levy for fire protection and EMS services.

3. Capital Projects Fund

This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Township had the following significant Capital Projects Fund:

Public Works Project Fund – This fund is for the construction of a new fire station building.

4. Permanent Funds

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

McMillan Trust Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of Chester Cemetery.

E. Budgetary Process

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

1. Appropriations

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

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Process (Continued)

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2014 and 2013 budgetary activity appears in Note 3.

F. 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:

1. Nonspendable

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

2. Restricted

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

3. 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.

4. Assigned

Assigned funds 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* amount represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Balance (Continued)

5. 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.

G. Property, Plant and Equipment

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

2. EQUITY IN POOLED DEPOSITS

The Township maintains a deposit pool that 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:

| | 2014 | 2013 | |
|------------------------|------------|------------|--|
| Demand Deposits | \$ 362,065 | \$ 396,134 | |
| Certificate of Deposit | 302 | 302 | |
| Total Deposits | \$ 362,367 | \$ 396,436 | |

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

| | 2014 Budgeted vs. Actual Receipts | | |
|-----------------|-----------------------------------|--------------------|-----------|
| | Budgeted Receipts | Actual Receipts | Variance |
| General | \$ 85,070 | \$ 100,138 | \$ 15,068 |
| Special Revenue | 439,010 | 478,271 | 39,261 |
| Permanent | 4 | - | (4) |
| Total | \$ 524,084 | \$ 578,409 | \$ 54,325 |

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(CONTINUED)**

3. BUDGETARY ACTIVITY (CONTINUED)

2014 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|-------------------|
| General | \$ 238,276 | \$ 131,023 | \$ 107,253 |
| Special Revenue | 681,934 | 481,455 | 200,479 |
| Permanent | 4 | - | 4 |
| Total | <u>\$ 920,214</u> | <u>\$ 612,478</u> | <u>\$ 307,736</u> |

2013 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|---------------------|------------------|
| General | \$ 173,000 | \$ 165,269 | \$ (7,731) |
| Special Revenue | 472,025 | 499,614 | 27,589 |
| Capital Projects | 862,577 | 900,000 | 37,423 |
| Permanent | - | - | - |
| Total | <u>\$ 1,507,602</u> | <u>\$ 1,564,883</u> | <u>\$ 57,281</u> |

2013 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|----------------------------|---------------------------|-------------------|
| General | \$ 376,675 | \$ 194,457 | \$ 182,218 |
| Special Revenue | 473,077 | 497,023 | (23,946) |
| Capital Projects | 901,205 | 901,205 | - |
| Permanent | 4 | - | 4 |
| Total | <u>\$ 1,750,961</u> | <u>\$ 1,592,685</u> | <u>\$ 158,276</u> |

Contrary to Ohio law, expenses exceed appropriations in the Fire Levy fund in 2013. Appropriations exceeded estimated resources in Public Works Project fund in 2013.

4. PROPERTY TAX

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

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

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(CONTINUED)**

5. DEBT

Debt outstanding as of December 31, 2014 is as follows:

| | |
|-----------|-------------------------|
| USDA Bond | Principal \$ 862,500 |
| Total | \$ 862,500 |

In 2013, the Township issued a USDA bond for the construction of a new fire station. Payments will be made to USDA semi-annually.

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

| Year Ending December 31: | USDA Bond |
|--------------------------|--------------|
| 2015 | \$ 46,500 |
| 2016 | 46,453 |
| 2017 | 46,443 |
| 2018 | 46,485 |
| 2019 | 46,406 |
| 2020-2024 | 232,394 |
| 2025-2029 | 232,230 |
| 2030-2034 | 232,299 |
| 2035-2039 | 232,254 |
| 2040-2044 | 139,323 |
| Total | \$ 1,300,786 |

6. RETIREMENT SYSTEMS

The Township's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is cost-sharing, multi-employer plan. The Ohio Revised Code prescribes this plan's benefits, which includes postretirement healthcare, and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, OPERS members contributed 10% of their gross salaries, and the Township contributed an amount equal to 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2014.

7. RISK MANAGEMENT

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

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

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(CONTINUED)**

7. RISK MANAGEMENT (CONTINUED)

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

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2014, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2013 and 2014:

| | <u>2013</u> | <u>2014</u> |
|--------------|---------------------|---------------------|
| Assets | \$34,954,286 | \$35,970,263 |
| Liabilities | <u>8,486,363</u> | <u>8,912,432</u> |
| Net Position | <u>\$26,467,923</u> | <u>\$27,057,831</u> |

At December 31, 2013 and 2014, respectively, the liabilities above include approximately \$7.9 and \$8.2 million of estimated incurred claims payable. The assets above also include approximately \$7.4 and \$7.2 million of unpaid claims to be billed to approximately 957 member governments in the future, as of December 31, 2013 and 2014, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Township's share of these unpaid claims collectible in future years is approximately \$9,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(CONTINUED)**

7. RISK MANAGEMENT (CONTINUED)

| <u>Contributions to OTARMA</u> | |
|--------------------------------|-------------|
| <u>2014</u> | <u>2013</u> |
| \$7,475 | \$7,454 |

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



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

October 23, 2015

Chester Township
Clinton County
5606 State Route 380
Wilmington, Ohio 45177

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of **Chester Township, Clinton County**, (the Township) as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated October 23, 2015, 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. We qualified our opinion on the Special Revenue Funds, in 2013 for classification of disbursements.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule or audit findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses and significant deficiencies.

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. We consider findings 2014-001 and 2014-002 described in the accompanying schedule of audit findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2014-003, 2014-004 and 2014-005 described in the accompanying schedule of audit findings to be significant deficiencies.

... "bringing more to the table"

Tax- Accounting - Audit - Review - Compilation - Agreed Upon Procedure - Consultation - Bookkeeping - Payroll
Litigation Support - Financial Investigations

Members: American Institute of Certified Public Accountants

- Ohio Society of CPAs • West Virginia Society of CPAs • Association of Certified Fraud Examiners •
- Association of Certified Anti - Money Laundering Specialists •

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of audit findings as items 2014-006 and 2014-007.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Perry & Associates CPAs A.C.".

Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
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FINDING NUMBER 2014-001

Material Weakness

Posting Receipts and Disbursements

Receipts and disbursements should be posted to the fund and line item accounts as established by Ohio Administrative Code.

During 2014 and 2013, receipts and disbursements were not always posted correctly. The following posting errors were noted:

- Rollback receipts were recorded as Property and Other Local Taxes and Miscellaneous in the General fund and should have been recorded as Intergovernmental in 2013;
- Rollback receipts were recorded as Property and Other Local Taxes in the General fund and should have been recorded as Intergovernmental in 2014;
- Rollback receipts were recorded as Property and Other Local Taxes and 100% to the General fund and should have been recorded as Intergovernmental in the General, Road and Bridge, and Fire funds in 2014;
- Rollback receipts were recorded as Property and Other Local Taxes in the Road and Bridge fund and should have been recorded as Intergovernmental in 2013 and 2014;
- Rollback receipts were recorded as Property and Other Local Taxes and Miscellaneous in the Fire Levy fund and should have been recorded as Intergovernmental in 2013 and 2014;
- Debt payment to the Marion Board of Trustees was not recorded to Principal Retirement in 2013;
- Debt payment for interest to PNC Equipment was recorded to Principal Retirement instead of Interest and Fiscal Charges in 2013;
- Debt payment for fire truck loan was posted to the Fire Levy fund as General Government instead of Principal Retirement in 2013;
- Debt payments for the fire station bond were not properly allocated between Principal Retirement and Interest and Fiscal charges in the Fire Levy fund in 2014;
- Receipts from Kingman School and insurance reimbursement were recorded as Other Financing Sources instead of Miscellaneous in 2013;
- Debt proceeds were posted to the General and Fire Levy fund and Capital Projects fund instead of Debt Proceeds in the Capital Projects fund in 2013;
- Capital Outlay for the fire station project was recorded in the General fund instead of the Capital Projects fund in 2013;
- Disbursement for the demolition of Kingman school was posted to General Government instead of Capital Outlay in 2013;
- Receipts for EMS runs received from MBI did not reconcile with the Township records.

Not posting receipts and disbursements accurately resulted in the financial statements requiring several reclassification and adjusting entries. The Financial Statements reflect all reclassifications and adjustments. The Township had made these adjustments to their accounting system.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-001 (Continued)

Material Weakness (Continued)

Posting Receipts and Disbursements (Continued)

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all sources of revenues are properly identified and classified on the financial statements.

We also recommend the Fiscal Officer refer to Ohio Administrative Code and/or the Ohio Township Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2014-002

Material Weakness

Agreement of Records

The Township uses the Uniform Accounting Network (UAN), a computerized system of accounting. This system was developed by the Auditor of State's Office, which when properly instituted will provide a good form of internal controls and safeguards for governmental accounting transactions. We noted a weakness in the utilization of this system as well as other bookkeeping irregularities, such as:

In 2014, a significant amount of warrants were written manually and entered into the UAN system after the fact, which increased the possibility of errors. There were seven occasions noted in our testing where the check number of the warrant issued did not agree with the amount posted to the Township records

Without maintaining current and accurate posting of records, undetected errors or irregularities could occur and not be corrected on a timely basis. In that the Township has the UAN system in place, by writing checks manually, the inherent controls of the computer program are not being utilized to its full potential.

In order for the Township to properly account for their financial information, the following should be implemented:

1. Posting of financial information should be done on a current basis, and in order for it to be accurate, the Township Handbook and chart of accounts prepared by the Auditor of State's Office needs to be used as a reference. Receipts (deposits) and expenditures (withdrawals) should all be accounted for in the month in which they occurred.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-002 (Continued)

Material Weakness (Continued)

Agreement of Records (Continued)

2. In that the Township is on a computerized network, all checks should be entered and posted via the computer. If an emergency exists whereby a check has to be written manually, said check should be accounted for on the system as soon as possible and the reason for the check having to be done this way noted in the minutes.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2014-003

Significant Deficiency

Payroll Withholding Allocations

When designing the Township's system of internal control and the specific control activities, management should ensure that all transactions are properly authorized in accordance with management's policies and ensure the accounting records are properly completed, submitted as required, and copies retained for documentation.

The following deficiency was noted in the Township's payroll:

- Withholding forms 941's were not always completed correctly, resulting in penalties and interest.

We recommend that all payroll document be retained and proper completion instructions should be consulted to ensure the accurate payment of these withholdings. Withholdings should be remitted timely to prevent penalty and interest costs being assessed and the extra time and effort in correcting these errors. The Township should reconcile between the amounts withheld from employees and amounts remitted to the appropriate agencies to help ensure accurate reporting.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2014-004

Significant Deficiency

Outstanding Checks

To assist in maintaining accurate accounting records, an entity should periodically investigate and eliminate old outstanding check from the monthly bank-to-book reconciliations. The Township carried old outstanding check for the checking account.

Utilizing old outstanding checks as part of the reconciliation process increases the risk that errors and/or irregularities could occur and not be detected in a timely manner.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-004 (Continued)

Significant Deficiency (Continued)

Outstanding Checks (Continued)

We recommend all checks outstanding for more than one year be voided, a stop payment made at the bank if cost effective, and funds handled in accordance with Management Advisory Services Bulletin Number 91-11.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2014-005

Significant Deficiency

Reconciliation of MBI Payments to Accounting System

When designing the public office's system of internal controls and the specific control activities, management should also monitor activities performed by service organizations.

The Township entered into a contract with MBI to process bills for ambulance runs for non-residents. Payments were sent directly to a lockbox maintained by National Bank and Trust. MBI received copies of remittance detail that was sent to the lockbox. MBI then posted this detail to their records and subsequently billed the Township ten percent of the amount collected. The Township did not establish procedures to reasonably determine that ambulance billings have been completely and accurately processed and collected. There was no evidence that the Township reconciles the amounts posted by MBI to the monies that were deposited into the Township's bank account.

We recommend the Township establish procedures to reconcile the ambulance runs to the amounts invoiced by MBI. They should continue the process by reconciling the amount deposited to their account to the amount invoiced by MBI. By reconciling the billing and receipt cycle, the Township can reduce the risk of duplicate invoices or missing invoices and nonpayment invoices. In addition, the Township should also recalculate the amount of the fee paid to MBI each month based on the amount of revenue that was collected from the services provided by MBI as outlined in the contract. By monitoring the fees the Township will reduce the risk of over or under payments to MBI under the established contract.

FINDING NUMBER 2014-006

Noncompliance

Budgetary Controls

The budget is an instrument of public policy: A governing board expresses its desires for using a government's limited resources through its appropriations. Ohio Rev. Code Section 5705 deals with a variety of budgetary requirements that all subdivisions must comply with in order to ensure fiscal responsibility.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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| FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued) |
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FINDING NUMBER 2014-006 (Continued)

Noncompliance (Continued)

Budgetary Controls (Continued)

In performing the audit we noted several violations of budgetary law which, although they do not in and of themselves, result in errors in financial reporting, may lead the Township making financial decisions based on incorrect or incomplete information. We noted the following:

- Violations of 5705.39 indicating appropriations cannot exceed estimated resources;
- Violations of 5705.41(B) stating no subdivision is to expend money unless it has been appropriated (expenditures exceeding appropriations);
- Violations of 5705.41(D) relating to expenditures having prior certification of availability of funds.

The Board should review the requirements of ORC section 5705 to be familiar with these laws and to make sure the Township is complying with applicable sections. If the Board does not consider this necessary, steps should be taken to make sure amounts are encumbered (purchase orders are used and assigned to each purchase prior to ordering), certifications of available funds are done by the Fiscal Officer prior to purchasing and unencumbered balances are tracked for each line item.

Management's Response – We did not receive a response from officials to this finding.

FINDING NUMBER 2014-007

Noncompliance

Debt Service Fund

Ohio Rev. Code Section 5705.09 requires subdivisions to establish a bond retirement fund for the retirement of serial bonds. The Township issued Fire Station Bonds, Series 2013 in 2013 but did not establish a debt service fund for the payment of the bonds.

We recommend the Township establish the required debt service fund and annually transfer funds from the general and fire levy funds, in those funds proportional share, for debt payments.

Management's Response – We did not receive a response from officials to this finding.

**CHESTER TOWNSHIP
CLINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|---|
| 2012-001 | Ohio Admin. Code 117-2-01 and Ohio Admin. Code 117-2-02 | No | Partially Corrected; Reissued as part of Finding 2014-001, 2014-003, 2014-004, 2014-005 and 2014-006 |
| 2012-002 | Ohio Rev. Code 505.84 – establishing an Ambulance/EMS fund | Yes | N/A |
| 2012-003 | Ohio Rev. Code 5705.10 and Ohio Rev. Code 505.24(C) | Yes | N/A |
| 2012-004 | Ohio Rev. Code 5705.41(D) | No | Reissued as part of Finding 2014-006 |
| 2012-005 | Ohio Rev. Code 5705.39 | No | Reissued as part of Finding 2014-006 |

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Dave Yost • Auditor of State

CHESTER TOWNSHIP

CLINTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 29, 2015**