



Dave Yost • Auditor of State

MADISON TOWNSHIP
SANDUSKY COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Madison Township
Sandusky County
611 West Madison Street
Gibsonburg, Ohio 43431-1224

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 Madison Township, Sandusky County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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

As described in Note 2 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than

accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2016 and 2015, and the respective changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of Madison Township, Sandusky County, Ohio as of December 31, 2016 and 2015, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2018, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

January 18, 2018

**MADISON TOWNSHIP
SANDUSKY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts				
Property and Other Local Taxes	\$59,645	\$256,466		\$316,111
Intergovernmental	30,343	130,549	\$50,471	211,363
Earnings on Investments	106	859		965
Miscellaneous	1,586	2,496		4,082
<i>Total Cash Receipts</i>	<u>91,680</u>	<u>390,370</u>	<u>50,471</u>	<u>532,521</u>
Cash Disbursements				
Current:				
General Government	86,814	2,298		89,112
Public Safety	3,326	39,026		42,352
Public Works	7,722	169,928		177,650
Health		44,934		44,934
Capital Outlay	1,236		50,471	51,707
<i>Total Cash Disbursements</i>	<u>99,098</u>	<u>256,186</u>	<u>\$50,471</u>	<u>405,755</u>
<i>Net Change in Fund Cash Balances</i>	(7,418)	134,184		126,766
<i>Fund Cash Balances, January 1</i>	<u>32,573</u>	<u>478,753</u>		<u>511,326</u>
Fund Cash Balances, December 31				
Restricted		612,937		612,937
Assigned	11,391			11,391
Unassigned	13,764			13,764
<i>Fund Cash Balances, December 31</i>	<u>\$25,155</u>	<u>\$612,937</u>		<u>\$638,092</u>

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

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Madison Township, Sandusky 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 and fire protection services.

The Township participates in a jointly governed organization and a public entity risk pool. Note 6 and Note 9 to the financial statements provides additional information for these entities. These organizations are:

Public Entity Risk Pool:

Ohio Township Association Risk Management Authority (OTARMA) – a risk-sharing pool available to Ohio townships to provide property and casualty coverage for its members.

Jointly Governed Organization:

Gibsonburg Union Cemetery – which provides cemetery services.

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the Township are presented below:

General Fund The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Gasoline Tax Fund This fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township

Motor Vehicle License Tax Fund This fund accounts for and reports the portion of motor vehicle license registration fees restricted for maintenance and repair of roads within the Township.

Cemetery Fund This fund receives property tax money, established by a Township levy, to be distributed to the Gibsonburg Union Cemetery.

Fire Operations Fund This fund receives a tax levy to pay for fire services.

Fire Equipment Fund This fund receives a tax levy to pay for fire equipment.

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Capital Project Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Township had the following significant Capital Project Fund:

Issue II Fund The Township received a grant from Ohio Public Works Commission to repair a Township road.

Basis of Accounting

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

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

Budgetary Process

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

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

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

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

A summary of 2016 budgetary activity appears in Note 3.

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.

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.

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Fund Balance

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

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

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

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

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

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

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

Note 3 – Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$110,070	\$91,680	(\$18,390)
Special Revenue	382,987	390,370	7,383
Capital Projects	50,471	50,471	
Total	\$543,528	\$532,521	(\$11,007)

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$127,000	\$99,945	\$27,055
Special Revenue	360,886	261,412	99,474
Capital Projects	50,471	50,471	
Total	\$538,357	\$411,828	\$126,529

Note 4 – Equity in Pooled Deposits

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

	2016
Demand deposits	\$638,092

Deposits

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

Note 5 – Property Taxes

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

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

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

Note 6 – Risk Management

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

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

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

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2016:

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

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$5,000.

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

<u>2016 Contributions to OTARMA</u>
\$11,667

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.

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Note 7 – Defined Benefit Pension Plan

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%, of their gross salaries and the Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

Note 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. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 9 – Jointly Governed Organization

The Gibsonburg Union Cemetery is a jointly governed organization. Madison Township and the Village of Gibsonburg appoint members to sit on the Cemetery Board. The Township is also responsible for levying and distributing tax revenues to the Cemetery. The Township distributed \$45,886 in 2016.

**MADISON TOWNSHIP
SANDUSKY COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts				
Property and Other Local Taxes	\$57,171	\$239,512		\$296,683
Intergovernmental	34,477	119,009		153,486
Earnings on Investments	88	519		607
Miscellaneous	924	3,064		3,988
<i>Total Cash Receipts</i>	<u>92,660</u>	<u>362,104</u>		<u>454,764</u>
Cash Disbursements				
Current:				
General Government	87,962	2,275		90,237
Public Safety	2,917	147,199		150,116
Public Works	9,499	173,217		182,716
Health		45,751		45,751
Capital Outlay	2,898			2,898
<i>Total Cash Disbursements</i>	<u>103,276</u>	<u>368,442</u>		<u>471,718</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(10,616)</u>	<u>(6,338)</u>		<u>(16,954)</u>
Other Financing Receipts (Disbursements)				
Sale of Capital Assets		16,000		16,000
Transfers In	16,421	16,421		32,842
Transfers Out	(16,421)		(\$16,421)	(32,842)
Advances In	8,606	8,606		17,212
Advances Out	(8,606)	(8,606)		(17,212)
<i>Total Other Financing Receipts (Disbursements)</i>		<u>32,421</u>	<u>(16,421)</u>	<u>16,000</u>
<i>Net Change in Fund Cash Balances</i>	(10,616)	26,083	(16,421)	(954)
<i>Fund Cash Balances, January 1</i>	<u>43,189</u>	<u>452,670</u>	<u>\$16,421</u>	<u>512,280</u>
Fund Cash Balances, December 31				
Restricted		478,753		478,753
Assigned	16,930			16,930
Unassigned	15,643			15,643
<i>Fund Cash Balances, December 31</i>	<u>\$32,573</u>	<u>\$478,753</u>		<u>\$511,326</u>

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

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Madison Township, Sandusky 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 and fire protection services.

The Township participates in a jointly governed organization and a public entity risk pool. Note 6 and Note 9 to the financial statements provides additional information for these entities. These organizations are:

Public Entity Risk Pool:

Ohio Township Association Risk Management Authority (OTARMA) – a risk-sharing pool available to Ohio townships to provide property and casualty coverage for its members.

Jointly Governed Organization:

Gibsonburg Union Cemetery – which provides cemetery services.

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the Township are presented below:

General Fund The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Gasoline Tax Fund This fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township

Motor Vehicle License Tax Fund This fund accounts for and reports the portion of motor vehicle license registration fees restricted for maintenance and repair of roads within the Township.

Cemetery Fund This fund receives property tax money, established by a Township levy, to be distributed to the Gibsonburg Union Cemetery.

Fire Operations Fund This fund receives a tax levy to pay for fire services.

Fire Equipment Fund This fund receives a tax levy to pay for fire equipment.

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

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

Miscellaneous Debt Service Fund This fund is used to receive property tax allocations to pay the Township's debt obligations.

Basis of Accounting

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

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

Budgetary Process

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

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

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

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

A summary of 2015 budgetary activity appears in Note 3.

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.

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.

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Fund Balance

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

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

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

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

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

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

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

Note 3 – Budgetary Activity

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$135,448	\$117,687	(\$17,761)
Special Revenue	361,153	403,131	41,978
Total	\$496,601	\$520,818	\$24,217

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$114,600	\$128,703	(\$14,103)
Special Revenue	704,381	378,388	325,993
Debt Service		16,421	(16,421)
Total	\$818,981	\$507,091	\$311,890

Note 4 – Equity in Pooled Deposits

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

	2015
Demand deposits	\$511,326

Deposits

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

Note 5 – Property Taxes

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

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

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

Note 6 – Risk Management

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

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

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

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2015, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Assets	\$37,313,311	\$35,970,263
Liabilities	8,418,518	8,912,432
Net Position	\$28,894,793	\$27,057,831

At December 31, 2015 and 2014, respectively, the liabilities above include approximately \$7.8 and \$8.2 million of estimated incurred claims payable. The assets above also include approximately \$7.7 and \$7.2 million of unpaid claims to be billed to approximately 989 members and 957 member governments in the future, as of December 31, 2015 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, 2015, the Township's share of these unpaid claims collectible in future years is approximately \$6,000.

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

<u>Contributions to OTARMA</u>	
<u>2015</u>	<u>2014</u>
\$12,144	\$11,110

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.

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Note 7 – Defined Benefit Pension Plan

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%, of their gross salaries and the Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2015.

Note 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. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 9 – Jointly Governed Organization

The Gibsonburg Union Cemetery is a jointly governed organization. Madison Township and the Village of Gibsonburg appoint members to sit on the Cemetery Board. The Township is also responsible for levying and distributing tax revenues to the Cemetery. The Township distributed \$45,886 in 2015.

Note 10 – Compliance

Contrary to the requirements of the Ohio Revised Code, sale of capital assets receipts due to the Fire Department Truck and Equipment Fund were improperly posted to the General Fund as miscellaneous receipts. In addition, expenditures exceeded appropriations in the General Fund and the Debt Service Fund.



Dave Yost • Auditor of State

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

Madison Township
Sandusky County
611 West Madison Street
Gibsonburg, Ohio 43431-1224

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of Madison Township, Sandusky County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated January 18, 2018 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 through 2016-003 to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of

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noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2016-002 and 2016-003.

Entity's Response to Findings

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

Purpose of this Report

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

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

Dave Yost
Auditor of State

Columbus, Ohio

January 18, 2018

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

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

FINDING NUMBER 2016-001

Material Weakness

Financial Reporting

The Township's management is responsible for the fair presentation of the financial statements. In addition, GASB Statement No. 54 requires fund balance be divided into one of five classifications based on the extent to which constraints are imposed upon the resources. Errors were noted in the financial statements, resulting in adjustments such as the following:

- Subsequent year appropriations over estimated receipts within the General Fund in the amount of \$16,930 were misclassified as unassigned rather than assigned in 2015.
- A Court ordered transfer in the amount of \$16,421 from the Miscellaneous Debt Service Fund to the General Fund, and a subsequent Board approved transfer of \$16,421 from the General Fund to the Fire Department Truck and Equipment Fund were processed with the Fund Balance Adjustment Utility in UAN instead of being treated as transfers-out and transfers-in and presented on the financial statements in 2015.
- A fund balance adjustment in the amount of \$42,770 between the Debt Service Fund and the Fire Department Truck and Equipment Fund required in the prior audit was not completed properly, resulting in the 2015 financial statements requiring the same adjustment.
- Intergovernmental revenues of \$1,780 in the General Fund were not posted on the financial statements until 2016 even though they were deposited in the bank during 2015.

These errors were the result of inadequate policies and procedures in reviewing the financial statements. Failure to complete accurate financial statements could lead to the Board making misinformed decisions. The accompanying financial statements, notes to the financial statements, and accounting records have been adjusted to correct these errors.

Additional immaterial errors were noted during the testing performed that were included on our Summary of Unadjusted Differences form and were not posted to the financial statements.

To help ensure the Township's financial statements and notes to the statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Board, to identify and correct errors and omissions. The Fiscal Officer should also review the Township Handbook and Audit Bulletin 2011-004 for information on GASB Statement No. 54, to help ensure that all accounts are being properly posted to the financial statements.

Officials' Response:

We acknowledge errors were made and will properly post these transactions in the future.

FINDING NUMBER 2016-002

Noncompliance and Material Weakness

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

During 2015, the Township incorrectly posted the proceeds from the sale of two fire trucks totaling \$16,000 as miscellaneous receipts in the General Fund. The receipts should have been classified as a sale of capital assets in the Fire Department Truck and Equipment Fund. This error was due to insufficient monitoring by management. The accompanying financial statements and accounting records have been adjusted to correct this error.

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

Officials' Response:

We acknowledge errors were made and will properly post these transactions in the future.

FINDING NUMBER 2016-003

Noncompliance and Material Weakness

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing unit from making any expenditure of money unless it has been properly appropriated in accordance with the Ohio Revised Code.

During 2015, expenditures and contractual commitments exceeded appropriations by \$14,103 and \$16,421 within the General Fund and Debt Service Fund, respectively. We found instances of supplemental appropriations posted to the appropriation ledger; however, there was no evidence that the Board adopted a formal resolution approving these supplemental appropriations as required by Ohio Revised Code. Adjustments were made to the budgetary activity reported in Note 3 to the financial statements in order to accurately present appropriations approved by the Board.

This error was a result of inadequate policies and procedures in reviewing budgetary information. Failure to have adequate appropriations in place at the time expenditures are made could cause expenditures to exceed available resources, further resulting in deficit spending practices.

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials' Response:

We acknowledge errors were made and will properly approve and document the approval of appropriations in the future.

**MADISON TOWNSHIP
SANDUSKY COUNTY**

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

Finding Number	Finding Summary	Status	Additional Information
2014-001	Ohio Rev. Code § 5705.10(C) and material weakness for placing property tax and intergovernmental receipts in improper funds.	Fully corrected.	
2014-002	Ohio Rev. Code § 5705.41(B) for budgetary expenditures exceeding appropriations.	Not corrected and repeated in this report as finding 2016-003.	This finding reoccurred due to inadequate policies and procedures in reviewing the financial statements and accounting records throughout the audit period. The District is implementing procedures to correct these errors for future periods.
2014-003	Material weakness due to errors over financial reporting.	Not corrected and repeated in this report as finding 2016-001.	This finding reoccurred due to inadequate policies and procedures in reviewing the financial statements and accounting records throughout the audit period. The District is implementing procedures to correct these errors for future periods.

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MADISON TOWNSHIP

SANDUSKY 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
FEBRUARY 1, 2018**