



Dave Yost • Auditor of State

RECOVERY TOWNSHIP
MERCER COUNTY

DECEMBER 31, 2017 AND 2016

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Recovery Township
Mercer County
1757 St. Joe Rd.
P.O. Box 597
Ft. Recovery, Ohio 45846

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 Recovery Township, Mercer County, Ohio (the Township) as of and for the years ended December 31, 2017 and 2016.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2017 and 2016, 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 the Recovery Township, Mercer County as of December 31, 2017 and 2016, 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 December 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

December 18, 2018

RECOVERY TOWNSHIP, MERCER COUNTY

Combined Statement of Receipts, Disbursements and Changes in Fund Balances (Cash Basis)

All Governmental Fund Types

For the Year Ended December 31, 2017

	<u>General</u>	<u>Special Revenue</u>	<u>Totals</u>
Cash Receipts			
Property and Other Local Taxes	\$ 24,918	\$ 91,170	\$ 116,088
Licenses, Permits and Fees	1,300	0	\$1,300
Intergovernmental	20,539	95,005	\$115,544
Special Assessments	0	1,788	\$1,788
Earnings on Investments	15	0	\$15
Miscellaneous	1,244	2,000	\$3,244
<i>Total Cash Receipts</i>	<u>48,016</u>	<u>189,963</u>	<u>237,979</u>
Cash Disbursements			
Current:			
General Government	39,848	14,792	54,640
Public Safety	3,160	0	3,160
Public Works	0	133,152	133,152
Health	10,458	0	10,458
Debt Service:			
Principal Retirement	0	8,883	8,883
Payment to Refunded Bond Escrow Agent	0	0	0
Interest and Fiscal Charges	0	1,780	1,780
<i>Total Cash Disbursements</i>	<u>53,466</u>	<u>158,607</u>	<u>212,073</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(5,450)</u>	<u>31,356</u>	<u>25,906</u>
Other Financing Receipts (Disbursements)			
Advances In	455	455	910
Advances Out	(455)	(455)	(910)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	<u>(5,450)</u>	<u>31,356</u>	<u>25,906</u>
<i>Fund Cash Balances, January 1</i>	<u>75,221</u>	<u>43,727</u>	<u>118,948</u>
Fund Cash Balances, December 31			
Restricted	0	34,295	34,295
Committed	0	40,788	40,788
Assigned	36,740	0	36,740
Unassigned (Deficit)	33,031	0	33,031
<i>Fund Cash Balances, December 31</i>	<u>\$ 69,771</u>	<u>\$ 75,083</u>	<u>\$ 144,854</u>

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

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Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Recovery Township, Mercer County, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, and emergency medical services. The Township contracts with the Mercer County Emergency Services to provide to provide ambulance services and Mercer County health department to assist in the per diem health services.

Public Entity Risk Pools

The Township participates in the Ohio Township Association Risk Management Authority, Inc. (OTARMA) a public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

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

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

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

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

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

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 – Summary of Significant Accounting Policies- Continued

Basis of Accounting

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

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

Budgetary Process

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

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

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

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

A summary of 2017 budgetary activity appears in Note 3.

Deposits and Investments

The Township's invest all available funds of the Township in an interest bearing checking account.

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.

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 – Summary of Significant Accounting Policies- Continued

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.

Capital Assets

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

Note 3 – Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$39,348	\$48,471	\$9,123
Special Revenue	189,531	190,418	887
Total	\$228,879	\$238,889	\$10,010

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$72,727	\$53,921	\$18,806
Special Revenue	230,588	159,062	71,526
Total	\$303,315	\$212,983	\$90,332

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 4– Deposits

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

	2017
Demand deposits	\$ 144,854
Total deposits	\$ 144,854

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation (FDIC).

Note 5 – Property Taxes

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

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

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.

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, 2017, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 6 – Risk Management (Continued)

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

Financial Position

OTARMA’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2017.

	2017
Assets	\$40,010,732
Liabilities	8,675,465
Net Position	\$31,335,267

At December 31, 2017 the liabilities above include approximately \$8.0 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,016 member governments in the future, as of December 31, 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Township’s share of these unpaid claims collectible in future years is approximately \$1,000.

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>2017 Contributions to</u> <u>OTARMA</u>
\$2,831

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.

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 – Defined Benefit Pension Plans

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants’ gross salaries. The Township has paid all contributions required through December 31, 2017.

Note 8 – Postemployment Benefits

OPERS offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

Note 9 – Debt

Debt outstanding at December 31, 2017, was as follows:

	Principal
General Obligation Notes	\$ 29,216
Total	\$ 29,216

The Township issued general obligation bonds to finance the purchase of a new Tractor (mower) equipment for Township road maintenance. The Township’s taxing authority collateralized the bonds.

Amortization

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

Year Ending December 31:	General Obligation Notes
2018	\$10,663
2019	10,663
2020	10,663
Total	\$31,989

RECOVERY TOWNSHIP, MERCER COUNTY

**Combined Statement of Receipts, Disbursements and Changes in Fund Balances
All Governmental Fund Types**

For the Year Ended December 31, 2016

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals</u>
Cash Receipts				
Property and Other Local Taxes	\$ 24,589	\$ 92,076	\$ -	\$ 116,665
Licenses, Permits and Fees	1,300	0	0	\$1,300
Intergovernmental	20,589	96,296	34,204	\$151,089
Special Assessments	0	1,571	0	\$1,571
Earnings on Investments	17	0	0	\$17
Miscellaneous	351	2,500	0	\$2,851
<i>Total Cash Receipts</i>	<u>46,846</u>	<u>192,443</u>	<u>34,204</u>	<u>273,493</u>
Cash Disbursements				
Current:				
General Government	44,537	14,094	0	58,631
Public Safety	3,160	0	0	3,160
Public Works	0	170,962	0	170,962
Health	10,485	0	0	10,485
Capital Outlay	0	48,555	34,204	82,759
Debt Service:				
Principal Retirement	0	10,456	0	10,456
Interest and Fiscal Charges	0	1,544	0	1,544
<i>Total Cash Disbursements</i>	<u>58,182</u>	<u>245,611</u>	<u>34,204</u>	<u>337,997</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(11,336)</u>	<u>(53,168)</u>	<u>0</u>	<u>(64,504)</u>
Other Financing Receipts (Disbursements)				
Loan Proceeds	0	48,555	0	48,555
Advances In	420	420	0	840
Advances Out	(420)	(420)	0	(840)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>0</u>	<u>48,555</u>	<u>0</u>	<u>48,555</u>
<i>Net Change in Fund Cash Balances</i>	<u>(11,336)</u>	<u>(4,613)</u>	<u>0</u>	<u>(15,949)</u>
<i>Fund Cash Balances, January 1</i>	<u>86,557</u>	<u>48,340</u>	<u>-</u>	<u>134,897</u>
Fund Cash Balances, December 31				
Restricted	0	26,346	0	26,346
Committed	0	17,381	0	17,381
Assigned	33,379	0	0	33,379
Unassigned (Deficit)	41,842	0	0	41,842
<i>Fund Cash Balances, December 31</i>	<u>\$ 75,221</u>	<u>\$ 43,727</u>	<u>\$ -</u>	<u>\$ 118,948</u>

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

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Recovery Township
Mercer 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 the Recovery Township, Mercer County, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance and emergency medical services. The Township contracts with the Mercer County Emergency Services to provide to provide ambulance services and Mercer County health department to assist in the per diem health services.

Public Entity Risk Pools

The Township participates in the Ohio Township Association Risk Management Authority, Inc. (OTARMA) a public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

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

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

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

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

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

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

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

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies- 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 funds:

Public Works Commission Fund – The Township receives Ohio Public Works Commission grant money for construction and repair of Township roads.

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. Appropriations lapse at year-end.

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

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

A summary of 2016 budgetary activity appears in Note 3.

Deposits and Investments

The Township's invest all available funds of the Township in an interest bearing checking account.

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies- 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.

Capital Assets

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

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 3 – Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$38,969	\$47,266	\$8,297
Special Revenue	190,018	241,418	51,400
Capital Projects	34,204	34,204	0
Total	\$263,191	\$322,888	\$59,697

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$76,837	\$58,602	\$18,235
Special Revenue	235,901	246,031	(10,130)
Capital Projects	34,204	34,204	0
Total	\$346,942	\$338,837	\$8,105

Note 4– Deposits

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

Demand deposits	2016 \$118,948
Total deposits	\$118,948

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation (FDIC).

Note 5 – Property Taxes

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

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

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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.

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 \$1,000.

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 6– Risk Management –continued

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.

<p><u>2016 Contributions to</u> <u>OTARMA</u></p> <p style="text-align: center;">\$2,753</p>

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

Note 7 – Defined Benefit Pension Plans

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants’ gross salaries. The Township has paid all contributions required through December 31, 2016.

Note 8 – Postemployment Benefits

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

Note 9 – Debt

Debt outstanding at December 31, 2016, was as follows:

	<u>Principal</u>
General Obligation Notes	\$38,099
Total	\$38,099

Recovery Township
Mercer County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 9 – Debt- Continued

The Township issued general obligation bonds to finance the purchase of a new Tractor (mower) equipment for Township road maintenance. The Township’s taxing authority collateralized the bonds.

Amortization

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

Year Ending December 31:	General Obligation Bonds
2017	\$10,663
2018	10,663
2019	10,663
2020	10,663
Total	<u>\$42,652</u>

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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

Recovery Township
Mercer County
1757 St. Joe Rd.
P.O. Box 597
Ft. Recovery, Ohio 45846

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 the Recovery Township, Mercer County, (the Township) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated December 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 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.

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 a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Township's Response to Findings

The Township's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Township's response and, accordingly, we express no opinion on it.

Purpose of this Report

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



Dave Yost
Auditor of State
Columbus, Ohio

December 18, 2018

RECOVERY TOWNSHIP
MERCER COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016

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

FINDING NUMBER 2017-001

Non Compliance - Material Weakness

Accuracy of Financial Reporting

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

The Township did not properly classify all transactions. The following transaction was not recorded in the Township's annual report:

- The Township purchased a tractor to be used for road maintenance for the Township. The Township borrowed money in the amount of \$48,555 to purchase this equipment. The transaction should have been recorded as a receipt of debt proceeds and as a capital outlay expenditure in the Gasoline Tax Fund.

By not properly recording the tractor purchase, the Township then had corresponding expenditures exceed appropriations in the Gasoline Tax Fund. **Ohio Rev. Code § 5705.41(B)** prohibits a subdivision or taxing unit from expending money unless it has been appropriated. The legal level of budgetary control for the Township is the fund, function, object level at which the Board adopts the original appropriation measure. Budgetary expenditures exceeded appropriations for the year ended December 31, 2017 at the fund level for the Gasoline Tax fund by \$39,934.

Failure to properly record activity could lead to not having adequate appropriation authority in place at the time expenditures are made and may result in expenditures exceeding available resources, and result in deficit spending.

Governmental Accounting Standards Board (GASB) Statement No. 54 - *Fund Balance Reporting and Governmental Fund Type Definitions* gives definitions for each of the following fund types: General, Special Revenue, Capital Project, Debt Service, and Permanent. GASB Statement No. 54 also establishes fund balance classifications that stipulate use of fund balances based on the extent to which a government is required to observe constraints imposed upon the use of the resources reported in governmental funds and for amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision making authority. GASB Statement No. 54 paragraph 16 (GASB Codification 1800.176) states an appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance. GASB Statement No. 54 paragraph 31 (GASB Codification 1300.105) states, in part, governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

The following errors were noted as a result of the Township not properly implementing GASB Statement No 54:

- In 2017, the General Fund balance was incorrectly classified as assigned. Part of the fund balance was reclassified from assigned to unassigned in the amount of \$33,031 to properly reflect 2018 appropriations made that exceeded 2018 estimated receipts per GASB 54 guidance.

**FINDING NUMBER 2017-001
(Continued)**

- In 2016, the General Fund balance was incorrectly classified as assigned. Part of the fund balance was reclassified from assigned to unassigned in the amount of \$41,842 to properly reflect 2018 appropriations made that exceeded 2018 estimated receipts per GASB 54 guidance.
- The Zoning Fund was incorrectly classified on the financial statements. This fund was reclassified from a Special Revenue Fund to the General Fund since the funds inflows are not derived from restricted or committed revenue sources per GASB 54 guidance. This resulted in an increase of Licenses, Permits and Fees Revenue in the General Fund of \$1,300 in 2017 and \$1,300 in 2016, an increase in General Government Disbursements in the General Fund of \$1,080 in 2017 and \$1,184 in 2016 and an increase in the General Fund beginning fund balance by \$1,336 in 2017 and \$1,220 in 2016. The reclassification also resulted in decreases to the same line items by the same amounts for the Special Revenue funds.

The accompanying financial statements and the Township's records have been adjusted accordingly. In addition to the adjustments listed above, we also identified additional misstatements of \$2,575 to \$7,908 for 2017 and \$2,541 to \$7,788 for 2016 that we have brought to the Township's attention.

The failure to correctly classify financial activity in the UAN system and financial statements may impact the user's understanding of the financial operations, the Township's ability to make sound financial decisions, the Township's ability to comply with budgetary laws, and may result in material misstatement to the financial statements.

Policies and procedures should be developed and implemented to verify that all receipts and expenditures are posted correctly. The fiscal officer should review postings each month and again at the end of the fiscal year to verify that all amounts are classified and posted in accordance with the Township's chart of accounts. The Township should review the Ohio Township Handbook - Appendix IV, Auditor of State Bulletins and other resources available for guidance in an effort to correctly classify financial activity.

Official's Response:

The three main topics in the finding - debt, zoning moved to the General Fund since it is purely administrative, and General Fund monies as assigned or unassigned – will review and remedy.

Recovery Township Mercer County

1757 St Joe Rd
P.O. Box 597
Ft Recovery, Ohio 45846

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS December 31, 2017 and December 31, 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Payroll Certificates – Noncompliance/Material Weakness	Corrected	
2015-002	Accuracy of Financial Statement Transaction Classifications - Material Weakness	Not corrected – Repeated as Finding 2017-001	Will move the Zoning to an administrative account or to the general fund. Will make this change prior to the new year. IRP has been compensated to the State tax Auto fund. All other issues have been evaluated

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RECOVERY TOWNSHIP

MERCER 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
JANUARY 10, 2019**