

**MECHANIC TOWNSHIP  
HOLMES COUNTY  
AUDIT REPORT  
JANUARY 1, 2013 - DECEMBER 31, 2014**

**Wilson, Phillips & Agin, CPA's, Inc.  
1100 Brandywine Blvd. Building G  
Zanesville, Ohio 43701**





# Dave Yost • Auditor of State

Board of Trustees  
Mechanic Township  
1817 State Route 83, Unit 440  
Millersburg, OH 44654

We have reviewed the *Independent Auditors' Report* of Mechanic Township, Holmes County, prepared by Wilson, Phillips & Agin, CPA's, Inc., for the audit period January 1, 2013 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

November 3, 2015

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**MECHANIC TOWNSHIP  
HOLMES COUNTY  
JANUARY 1, 2013 - DECEMBER 31, 2014**

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**WILSON, PHILLIPS & AGIN, CPA'S, INC.  
1100 BRANDYWINE BLVD. BUILDING G  
ZANESVILLE, OHIO 43701**

**INDEPENDENT AUDITORS' REPORT**

Mechanic Township  
Holmes County  
1817 State Route 83, Unit 440  
Millersburg, Ohio 44654

To the Township Trustees:

**Report on the Financial Statements**

We have audited the accompanying financial statements and related notes of the Mechanic Township, Holmes County, as of and for the years ended December 31, 2014 and 2013.

**Management's Responsibility For the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

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

As described in Note 1 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, 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 permitted 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 Mechanic Township, Holmes County as of December 31, 2014 and 2013, or 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 combined cash balances of Mechanic Township, Holmes County as of December 31, 2014 and 2013, and its combined cash receipts and disbursements 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 1.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated July 22, 2015, on our consideration of Mechanic Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

***Wilson, Phillips & Agin, CPA's, Inc.***  
Zanesville, Ohio  
July 22, 2015

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

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

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$ 64,787	\$ 116,812	\$ -	\$ 181,599
Intergovernmental	15,057	101,469	-	116,526
Earnings on Investments	74	16	4	94
Miscellaneous	-	4,365	-	4,365
<b>Total Cash Receipts</b>	<u>79,918</u>	<u>222,662</u>	<u>4</u>	<u>302,584</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	85,433	-	-	85,433
Public Works	11,647	240,950	-	252,597
Debt Service:				
Principal Retirement	3,150	16,536	-	19,686
Interest and Fiscal Charges	669	3,464	-	4,133
<b>Total Cash Disbursements</b>	<u>100,899</u>	<u>260,950</u>	<u>-</u>	<u>361,849</u>
<b>Excess of Cash Receipts Over/(Under) Cash Disbursements</b>	(20,981)	(38,288)	4	(59,265)
<b>Other Financing Cash Receipts</b>				
Other Financing Sources	2,163	-	-	2,163
<b>Total Other Financing Cash Receipts</b>	<u>2,163</u>	<u>-</u>	<u>-</u>	<u>2,163</u>
<b>Net Change in Fund Cash Balance</b>	(18,818)	(38,288)	4	(57,102)
<b>Fund Cash Balances, January 1</b>	<u>116,401</u>	<u>92,846</u>	<u>2,124</u>	<u>211,371</u>
<b>Fund Cash Balances, December 31</b>				
Nonspendable	-	-	2,000	2,000
Restricted	-	54,558	128	54,686
Unassigned (Deficit)	97,583	-	-	97,583
<b>Fund Cash Balances, December 31</b>	<u>\$ 97,583</u>	<u>\$ 54,558</u>	<u>\$ 2,128</u>	<u>\$ 154,269</u>

See notes to financial statements.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

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

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$ 59,999	\$ 111,434	\$ -	\$ 171,433
Charges for Services	-	25,467	-	25,467
Intergovernmental	36,270	100,130	-	136,400
Earnings on Investments	109	21	6	136
Miscellaneous	-	11,815	-	11,815
<b>Total Cash Receipts</b>	<u>96,378</u>	<u>248,867</u>	<u>6</u>	<u>345,251</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	94,384	-	-	94,384
Public Works	41,250	256,410	-	297,660
Capital Outlay	-	149,753	-	149,753
<b>Total Cash Disbursements</b>	<u>135,634</u>	<u>406,163</u>	<u>-</u>	<u>541,797</u>
<b>Excess of Cash Receipts Over/(Under) Cash Disbursements</b>	(39,256)	(157,296)	6	(196,546)
<b>Other Financing Cash Receipts</b>				
Sale of Notes	-	149,753	-	149,753
Other Financing Sources	1,962	-	-	1,962
<b>Total Other Financing Cash Receipts</b>	<u>1,962</u>	<u>149,753</u>	<u>-</u>	<u>151,715</u>
<b>Net Change in Fund Cash Balance</b>	(37,294)	(7,543)	6	(44,831)
<b>Fund Cash Balances, January 1</b>	<u>153,695</u>	<u>100,389</u>	<u>2,118</u>	<u>256,202</u>
<b>Fund Cash Balances, December 31</b>				
Nonspendable	-	-	2,000	2,000
Restricted	-	92,846	124	92,970
Unassigned (Deficit)	116,401	-	-	116,401
<b>Fund Cash Balances, December 31</b>	<u>\$ 116,401</u>	<u>\$ 92,846</u>	<u>\$ 2,124</u>	<u>\$ 211,371</u>

See notes to financial statements.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Mechanic Township, Holmes County, (the Township) as a body corporate and politic. A publically-elected three-member Board of Trustees directs the Township. The Township provides general government services, road and bridge maintenance and cemetery maintenance. The Township contracts with the Holmes Fire District #1 to provide both fire services and ambulance services and the Holmes County Sheriff to provide police protection.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool and one jointly governed organization.. Notes 7 and 8 to the financial statements provides additional information for these entities. These organization are:

**Public Entity Risk Pool:**

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims exceeding the member's deductible.

**Jointly Governed Organization:**

Holmes Fire District #1

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

**B. 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 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

**C. Deposits and Investments**

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

**D. Fund Accounting**

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

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**General Fund**

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

**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 receives gasoline tax monies to pay for constructing, maintaining, and repairing Township roads.

**Road & Bridge Fund** – This fund receives property tax monies to pay for constructing, maintaining, and repairing Township roads.

**Permanent Funds**

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

**Sowash Cemetery Bequest Fund** – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for general maintenance and upkeep of the cemetery.

**E. 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 and object level of control and appropriations may not exceed estimated resources. The 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 2014 and 2013 budgetary activity appears in Note 3.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Fund Balance**

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

**1. Nonspendable**

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

**2. Restricted**

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

**3. Committed**

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

**4. Assigned**

Assigned 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.

**5. Unassigned**

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

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

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G Property, Plant and Equipment**

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

**H. 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.

**2. EQUITY IN POOLED CASH**

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:

	2014	2013
Demand deposits	\$ 152,269	\$ 209,371
Certificate of Deposit	2,000	2,000
	\$ 154,269	\$ 211,371

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

**3. BUDGETARY ACTIVITY**

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

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 73,238	\$ 82,081	\$ 8,843
Special Revenue	236,217	222,662	(13,555)
Permanent	6	4	(2)
Total	\$ 309,461	\$ 304,747	\$ (4,714)

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 158,200	\$ 100,899	\$ 57,301
Special Revenue	294,600	260,950	33,650
Permanent	100	-	100
Total	\$ 452,900	\$ 361,849	\$ 91,051

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**3. BUDGETARY ACTIVITY (Continued)**

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 73,730	\$ 98,340	\$ 24,610
Special Revenue	385,076	398,620	13,544
Permanent	13	6	(7)
Total	\$ 458,819	\$ 496,966	\$ 38,147

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 194,200	\$ 135,634	\$ 58,566
Special Revenue	438,853	406,163	32,690
Permanent	120	-	120
Total	\$ 633,173	\$ 541,797	\$ 91,376

Contrary to ORC 5705.41(D), the Township had invoices dated prior to certification.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Township Trustees. 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.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**5. DEBT**

Debt outstanding at December 31, 2014 was as follows:

	Principal	Interest rate
Kansas State Bank - Grader	\$ 130,067	2.76%
Total	\$ 130,067	

The Township entered into a master lease-purchase agreement with Kansas State Bank for the acquisition of a grader for Township road maintenance in March 2013. Payments are made annually from the General Fund, Gasoline Tax Fund and Road and Bridge Fund.

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

Year Ended December 31	Grader
2015	\$ 23,819
2016	23,819
2017	23,819
2018	23,819
2019	23,819
2020-2024	23,819
Total	\$ 142,914

**6. RETIREMENT SYSTEMS**

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

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, OPERS members contributed 10.0% of their gross wages and the Township contributed an amount equal to 14.00% of participant’s gross salaries. The Township has paid all contributions required through December 31, 2014.

**7. RISK MANAGEMENT**

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

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

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.) 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.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**7 RISK MANAGEMENT (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, 2014, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

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

	2014	2013
Assets	\$35,970,263	\$34,954,286
Liabilities	(8,912,432)	(8,486,363)
Retained Earnings	\$27,057,831	\$26,467,923

At December 31, 2014 and 2013, respectively, the liabilities above include approximately \$8.2 and \$7.9 million of estimated incurred claims payable. The assets above also include approximately \$7.2 and \$7.4 million of unpaid claims to be billed to approximately 957 member governments in the future, as of December 31, 2014 and 2013, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Township's share of these unpaid claims collectible in future years is approximately \$4,644.

Based on discussion 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.

Contributions to OTARMA	
2014	\$8,930
2013	8,707

After completing 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.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

**8. JOINTLY GOVERNED ORGANIZATION**

Holmes Fire District #1, Holmes County, (the District) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is directed by appointed representatives from four political subdivisions consisting of the Village of Millersburg, Hardy Township, Mechanic Township and Monroe Township. The Board of Trustees consists of five members, one member from each subdivision and one member at large whose appointment is made by one individual subdivision within the District on a yearly rotational basis. The principal purpose of the District is to pool mutual resources and abilities of the member subdivisions and thereby provide the subdivisions adequate and responsible fire protection and emergency medical services.

**9. RELATED PARTY TRANSACTION**

Daniel Muse, Fiscal Officer, is the Operations Officer/Network Administrator of Commercial and Savings Bank where the Township has its bank accounts.

**WILSON, PHILLIPS & AGIN, CPA'S, INC.  
1100 BRANDYWINE BLVD. BUILDING G  
ZANESVILLE, OHIO 43701**

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

Mechanic Township  
Holmes County  
1817 State Route 83, Unit 440  
Millersburg, Ohio 44654

To the Township Trustees:

We have audited, in accordance with auditing standards general accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Mechanic Township, Holmes County as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated July 22, 2015, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered Mechanic 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 a 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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency in internal control. We consider finding 2014-02 to be a significant deficiency.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Mechanic 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 was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed two instances of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2014-01 and 2014-02.

***Entity's Response to Finding***

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 communication is not suitable for any other purpose.

***Wilson, Phillips & Agin, CPA's, Inc.***  
Zanesville, Ohio  
July 22, 2015

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013**

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

**FINDING NUMBER 2014-01**

**Noncompliance – Certification of Funds**

Ohio Revised Code Section 5705.41(D) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

- If the fiscal officer can certify that both at the time that the contract or order was made ("then") and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has 30 days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of the expenditures by the Township.
- Blanket Certificates. Fiscal officers may prepare "blanket" certificates if the Township has approved their use and established maximum amounts.
- Super Blanket Certificates. The Township may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonable predictable operation expense. This certification is not to extend beyond the current year. More than one so-called "super blanket" certificate may be outstanding at a particular time for any line item appropriation.

**MECHANIC TOWNSHIP  
HOLMES COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013**

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

**FINDING NUMBER 2014-01 (Continued)**

The Township did not certify the availability of funds prior to the purchase commitment for 32% of expenditures tested. For these items the Township also did not prepare blanket certificates, super blankets certificates or then and now certificates in accordance with the Ohio Revised Code. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the Township certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper code, to reduce available appropriations.

Client Response: We will review all payments made.

**FINDING 2014-02**

**Significant Deficiency – Debt Payments**

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

The Ohio Township Handbook provides suggested account classifications. These accounts classify receipts by fund and source (taxes or charges for services, for example) and classify disbursements by fund, program (general government, for example) or object (personal services, for example). Using these classifications will provide the Township with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

During 2014, the Township's debt activity was not posted or recorded in the proper accounts and classifications.

- In 2014, debt payments (principal and interest) in the amount of \$3,819 and \$20,000 were posted to General Government and Public Works within the General Fund and Special Revenue Funds instead of principal and interest payments.

Reclassifications are reflected within the accompanying financial statements.

Client Response: We will change account code to correctly state these payments.

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# Dave Yost • Auditor of State

**MECHANIC TOWNSHIP**

**HOLMES 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  
NOVEMBER 17, 2015**