



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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KILLBUCK TOWNSHIP
HOLMES COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2014 and 2013
Fiscal Years Audited Under GAGAS: 2014 and 2013



Dave Yost • Auditor of State

Board of Trustees
Killbuck Township
520 North Main St
Killbuck, Ohio 44637

We have reviewed the *Independent Auditor's Report* of Killbuck Township, Holmes County, prepared by Balestra, Harr & Scherer, CPAs, 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. Killbuck Township is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

January 20, 2016

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Killbuck Township
Holmes County
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For the Fiscal Years Ended December 31, 2014 and 2013

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Independent Auditor's Report

Killbuck Township
Holmes County
520 North Main St.
Killbuck, Ohio 44637

To the Board of Trustees:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D); this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fair 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 of America, to satisfy requirements.

Although the effects on the financial statements of the variance 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 the Township as of December 31, 2014 and 2013, or changes in financial position thereof for the years then ended.

Basis for Qualified Opinion

Charges for Services related to the Chip & Seal program are reported at \$4,747 and \$3,733 for the years ended December 31, 2014 and 2013, respectively, which are 17 percent of the Special Revenue Fund Charges for Services receipts for the year ended December 31, 2014 and 13 percent of the Special Revenue Fund Charges for Services receipts for the year ended December 31, 2013. We were unable to obtain sufficient appropriate audit evidence supporting these amounts recorded as Special Revenue Fund charges for Services receipts. Consequently, we were unable to determine where any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements as it relates to the Special Revenue Funds referred to above present fairly, in all material respects, the combined cash balances of Killbuck Township, Holmes County Ohio, 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 permits, described in Note 1.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements as it relates to the General Fund referred to above present fairly, in all material respects, the combined cash balances of Killbuck 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) permits, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2015, on our consideration of the Township's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe 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 Standard* in considering the Township's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
September 10, 2015

Killbuck Township
Holmes County
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
Governmental Funds
For the Year Ended December 31, 2014

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts					
Property and Other Local Taxes	\$ 12,393	\$ 155,434	\$ -	\$ -	\$ 167,827
Intergovernmental	16,802	128,287	-	-	145,089
Charges for Services	-	27,475	-	-	27,475
Interest	39	-	-	4	43
Miscellaneous	12,216	2,691	-	-	14,907
<i>Total Cash Receipts</i>	<u>41,450</u>	<u>313,887</u>	<u>-</u>	<u>4</u>	<u>355,341</u>
Cash Disbursements					
Current:					
General Government	27,149	70,399	-	-	97,548
Public Safety	-	56,488	-	-	56,488
Public Works	-	157,690	-	-	157,690
Health	7,670	-	-	-	7,670
Capital Outlay	-	104,027	-	-	104,027
Debt Service:					
Principal Retirement	-	24,539	8,000	-	32,539
Interest and Fiscal Charges	-	-	900	-	900
<i>Total Cash Disbursements</i>	<u>34,819</u>	<u>413,143</u>	<u>8,900</u>	<u>-</u>	<u>456,862</u>
<i>Excess of Cash Receipts Over /(Under) Cash Disbursements</i>	<u>6,631</u>	<u>(99,256)</u>	<u>(8,900)</u>	<u>4</u>	<u>(101,521)</u>
Other Financing Sources (Uses)					
Transfers In	-	-	8,900	-	8,900
Transfers Out	(450)	(8,450)	-	-	(8,900)
<i>Total Other Financing Sources (Uses)</i>	<u>(450)</u>	<u>(8,450)</u>	<u>8,900</u>	<u>-</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	6,181	(107,706)	-	4	(101,521)
<i>Fund Cash Balances, January 1</i>	<u>(3,943)</u>	<u>123,273</u>	<u>(4,404)</u>	<u>2,311</u>	<u>117,237</u>
Fund Cash Balances, December 31					
Nonspendable	-	-	-	2,000	2,000
Restricted	-	15,567	-	315	15,882
Unassigned (Deficit)	2,238	-	(4,404)	-	(2,166)
<i>Fund Cash Balances, December 31</i>	<u>\$ 2,238</u>	<u>\$ 15,567</u>	<u>\$ (4,404)</u>	<u>\$ 2,315</u>	<u>\$ 15,716</u>

See accompanying notes to the financial statements.

Killbuck Township
Holmes County
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
Governmental Funds
For the Year Ended December 31, 2013

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts					
Property and Other Local Taxes	\$ 10,526	\$ 135,483	\$ -	\$ -	\$ 146,009
Intergovernmental	83,213	125,552	-	-	208,765
Charges for Services	-	28,457	-	-	28,457
Interest	25	107	-	6	138
Miscellaneous	6,392	2,766	-	-	9,158
<i>Total Cash Receipts</i>	<u>100,156</u>	<u>292,365</u>	<u>-</u>	<u>6</u>	<u>392,527</u>
Cash Disbursements					
Current:					
General Government	14,985	70,157	-	-	85,142
Public Safety	-	68,153	-	-	68,153
Public Works	-	197,998	-	-	197,998
Health	6,178	-	-	-	6,178
Capital Outlay	-	34,290	-	-	34,290
Debt Service:					
Principal Retirement	-	24,539	8,000	-	32,539
Interest and Fiscal Charges	-	-	1,300	-	1,300
<i>Total Cash Disbursements</i>	<u>21,163</u>	<u>395,137</u>	<u>9,300</u>	<u>-</u>	<u>425,600</u>
<i>Excess of Cash Receipts Over/(Under) Cash Disbursements</i>	<u>78,993</u>	<u>(102,772)</u>	<u>(9,300)</u>	<u>6</u>	<u>(33,073)</u>
Other Financing Sources (Uses)					
Transfers In	-	-	9,300	-	9,300
Transfers Out	(650)	(8,650)	-	-	(9,300)
<i>Total Other Financing Sources (Uses)</i>	<u>(650)</u>	<u>(8,650)</u>	<u>9,300</u>	<u>-</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	78,343	(111,422)	-	6	(33,073)
<i>Fund Cash Balances, January 1</i>	<u>(82,286)</u>	<u>234,695</u>	<u>(4,404)</u>	<u>2,305</u>	<u>150,310</u>
Fund Cash Balances, December 31					
Nonspendable	-	-	-	2,000	2,000
Restricted	-	123,313	-	311	123,624
Unassigned (Deficit)	(3,943)	(40)	(4,404)	-	(8,387)
<i>Fund Cash Balances, December 31</i>	<u>\$ (3,943)</u>	<u>\$ 123,273</u>	<u>\$ (4,404)</u>	<u>\$ 2,311</u>	<u>\$ 117,237</u>

See accompanying notes to the financial statements.

**Killbuck Township
Holmes County**

**Notes to The Financial Statements
December 31, 2014 and 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Primary Government

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

Component Unit

The Killbuck Township Volunteer Fire Department (the Fire Department) is governed by a sixteen member executive committee which, in association with the Township Trustees, oversees the operation of the Fire Department. Volunteers with a minimum of one year of service qualify for membership on the executive committee. The Fire Department provides fire protection and rescue services to Killbuck Township and to areas outside of the Township. The Township owns the Fire Department's equipment and any debt associated with that equipment. Based on the relationship with the Township, the Fire Department is considered a component unit of the Township. Note 9 provides additional information for the Fire Department.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. The basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Deposits 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:

**Killbuck Township
Holmes County**

**Notes to The Financial Statements
December 31, 2014 and 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for the proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

Road and Bridge – This fund receives property tax money to pay for constructing, maintaining, and repairing township roads.

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

Fire Levy Fund – This fund receives property tax money to pay for providing and maintaining fire apparatus, buildings, ambulance equipment, and fire and ambulance service.

3. Debt Service Fund

This fund accounts for and reports financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Township had the following significant Debt Service Fund:

General Obligation Debt Service – This fund is used to account for the retirement of the Township's debt.

4. Permanent Fund

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

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

**Killbuck Township
Holmes County**

**Notes to The Financial Statements
December 31, 2014 and 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

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

F. Fund Balance

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

1. Nonspendable

The Township 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.

**Killbuck Township
Holmes County**

**Notes to The Financial Statements
December 31, 2014 and 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

G. Property, Plant and Equipment

The Township records disbursements for acquisition 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.

**Killbuck Township
Holmes County**

**Notes to The Financial Statements
December 31, 2014 and 2013**

2. EQUITY IN POOLED CASH

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

Demand Deposits	\$	13,716		\$	115,237
Certificates of Deposits		2,000			2,000
Total Deposits		15,716			117,237

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

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

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 47,600	\$ 41,450	\$ (6,150)
Special Revenue	272,103	313,887	41,784
Debt Service	8,900	8,900	-
Permanent	-	4	4
Total	\$ 328,603	\$ 364,241	\$ 35,638

2014 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 22,580	\$ 35,269	\$ (12,689)
Special Revenue	384,205	421,593	(37,388)
Debt Service	8,900	8,900	-
Permanent	-	-	-
Total	\$ 415,685	\$ 465,762	\$ (50,077)

**Killbuck Township
Holmes County**

**Notes to The Financial Statements
December 31, 2014 and 2013**

3. BUDGETARY ACTIVITY

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 47,600	\$ 100,156	\$ 52,556
Special Revenue	272,103	292,365	20,262
Debt Service	9,300	9,300	-
Permanent	-	6	6
Total	\$ 329,003	\$ 401,827	\$ 72,824

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 22,580	\$ 21,813	\$ 767
Special Revenue	384,205	404,437	(20,232)
Debt Service	9,300	9,300	-
Permanent	-	-	-
Total	\$ 416,085	\$ 435,550	\$ (19,465)

Contrary to Ohio Rev. Code Section 5705.41(D), the Township did not properly certify 25% of expenditures subject to testing.

Contrary to Ohio Rev. Code Section 5705.10(H), throughout 2014, the Gasoline Tax Fund, Cemetery Fund and Debt Service Fund had cash deficit balances. Additionally, throughout 2103, the General Fund, Cemetery Fund and Debt Service Fund had cash deficit balances.

Contrary to Ohio Rev. Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority in the General Fund, Gasoline Tax Fund, Road & Bridge Fund and Fire Fund for the year ended December 31, 2014. Additionally, budgetary expenditures exceeded appropriation authority in the MLVT Fund, Gasoline Tax Fund, Road & Bridge Fund and Cemetery Fund for the year ended December 31, 2013.

4. PROPERTY TAX

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

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

**Killbuck Township
Holmes County**

**Notes to The Financial Statements
December 31, 2014 and 2013**

4. PROPERTY TAX

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

5. DEBT

Debt outstanding at December 31, 2014 was as follows:

	Principal	Interest Rate
Bond Anticipation Note	\$10,000	5.0%
Capital Lease	\$61,655	3.52%
	\$71,655	

The Township issued a note in 2012 to finance the construction of a building and acquiring equipment for Township road maintenance, transfers were made from the General fund and Gasoline Tax fund to the debt service fund to make the debt payments.

The Township issued a capital lease in 2012 for a fire truck. The capital lease payments were made from Fire fund

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

Year Ending December 31:	Bond Anticipation Note	Capital Lease
2015	\$10,000	\$20,552
2016		22,899
2017		18,204
Total	\$10,000	\$61,655

6. RETIREMENT SYSTEM

The Township's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, which include postretirement healthcare and survivor and disability benefits as prescribed by the Ohio Revised Code.

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

**Killbuck Township
Holmes County**

**Notes to The Financial Statements
December 31, 2014 and 2013**

7. RISK MANAGEMENT

Risk Pool Membership

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles, and
- Errors and omissions

8. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Township are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

9. Killbuck Township Volunteer Fire Department

As indicated in Note 1 to the financial statements, the following disclosure is made on behalf of the Killbuck Township Volunteer Fire Department (the Fire Department); The Fire Department is governed by an executive committee that, in association with the Township Trustees, oversees the operation of the Fire Department. The Fire Departments' grant activity and equipment and maintenance expenses are accounted for on the Township's financial accounting system. However, the Fire Department also receives private donations and fundraiser contributions which do not flow through the Township's financial accounting system. We were not able to obtain the information from the Volunteer Fire Department as it relates to the receipts and expenses for both 2013 and 2014.



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

www.bhscpas.com

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Killbuck Township
Holmes County
520 North Main St.
Killbuck, Ohio 44637

To the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of Killbuck Township, Holmes County, (the Township) as of and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements, and have issued our report thereon dated September 10, 2015, wherein we noted the Township followed accounting and financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Internal Control Over Financial Reporting

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

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

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. We consider findings 2014-002, 2014-003 and 2014-005 described in the accompanying schedule of findings to be material weaknesses.

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

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2014-001, 2014-002 and 2014-005.

Purpose of this Report

This report only describes the scope of our internal control testing 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.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Worthington, Ohio
September 10, 2015

**Killbuck Township
Holmes County**

**Schedule of Audit Findings
For the Years Ended December 31, 2014 and 2013**

Finding Number 2014-001

Material Noncompliance

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision stating the amount required to meet the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 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.

1. "Then and Now" Certificate – 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 thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of 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 expenditures by the Township.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – 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 reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Fiscal Officer did not certify the availability of funds prior to purchase commitments being made for 25% of the expenditures tested in 2013. The Township did not have sufficient internal controls in place to ensure the certification of the availability of funds.

**Killbuck Township
Holmes County**

**Schedule of Audit Findings
For the Years Ended December 31, 2014 and 2013**

Finding Number 2014-001 (Continued)

Noncompliance Citation – Ohio Rev. Code Section 5705.4(D)(1)

Failure to certify the availability of funds properly can result in overspending funds and negative cash fund balances.

Unless the Township uses the exceptions noted above, prior certification is not only required by statute but is also a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify that funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township officials and employees obtain the Fiscal Officer's certification of the availability of funds prior to the commitment being incurrent. The most convenient certification method is to use purchase orders that include the certificate language of Section 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs the commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

Client Response: We did not receive a response form the client.

Finding Number 2014-002

Noncompliance Citation/Material Weakness

Ohio Rev. Code Section 5705.10 states that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The General Fund balance was (\$3,943), Cemetery Fund balance was (\$40) and Debt Service Fund (\$4,404) at December 31, 2013 and the Gasoline Tax Fund balance was (\$6,761), Cemetery Fund Balance was (\$40) and Debt Service Fund (\$4,404) at December 31, 2014.

A budgetary cycle should be in place for all governments. The budgetary process is a plan to coordinate expenditures and resources. The State Legislature has adopted laws to control expenditures using tax budgets and appropriations. The Auditor of State believes budgeting, properly used, provides the most important monitoring control a government has. It is impossible to incur a cash deficit if a government complies with the budgetary law. Additionally, the budget is an instrument of public policy. A governing board expresses its desire for using a government's limited resources through its appropriations.

We recommend the Fiscal Officer review the Ohio Compliance Supplement for budgetary requirements to implement a budgetary cycle for the Township. We further recommend the Township monitor spending to ensure deficit balances do not occur.

**Killbuck Township
Holmes County**

**Schedule of Audit Findings
For the Years Ended December 31, 2014 and 2013**

Finding Number 2014-003

Material Weakness - Supporting Documentation of Charges for Service Revenue – Chip & Seal

During the testing of the Charges for Services account balance in the Road and Bridge Fund, the Township did not maintain documentation to support the revenues collected for the Chip and Seal Program provided to the Township residents for fiscal years 2014 and 2013, respectively. The lack of supporting documentation could allow errors, irregularities and possible overcharging of Township residents to occur and go undetected for an extended period of time. As a result, we qualified the opinion regarding this lack of supporting documentation.

Sound financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To help ensure the Township's financial statements are complete and accurate, the Township should maintain supporting documentation for all revenue received for the Chip and Seal Program. This will help ensure errors, irregularities and/or inaccurate charges are detected timely and the financial statements are complete and accurate.

Client Response: We did not receive a response form the client.

Finding Number 2014-004

Significant Deficiency – Killbuck Township Volunteer Fire Department – Reporting Entity

The Governmental Accounting Standards Board (GASB) establishes standards of accounting and financial reporting for state and local governmental entities. Standards set by GASB guide the preparation of external financial reports for those entities.

GASB Codification Section 2100 established standards for defining and reporting on the financial reporting entity. Per section 2100.111, the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Killbuck Township Volunteer Fire Department is a legally separate not-for-profit organization. The Fire Department was organized for the preservation and protection of life and property during such fires and emergencies as may occur in Killbuck Township and to lend assistance to neighboring villages and townships when requested. Despite the Fire Department being an entity legally separate from the Township, the Fire Department is a component unit that is neither blended or discretely presented but rather should be a component unit recognized in a fiduciary capacity of the Township for financial reporting purposes since the nature and significance of the Fire Department's relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Killbuck Township
Holmes County**

**Schedule of Audit Findings
For the Years Ended December 31, 2014 and 2013**

Finding Number 2014-004 (continued)

Significant Deficiency – Killbuck Township Volunteer Fire Department – Reporting Entity

As a results, it is necessary for the Fire Department to provide financial statement activity to the Township for inclusion in the Township’s annual financial report.

Currently, the Fire Department does not have an annual audit performed.

The Township should also ensure that such financial activity is obtained timely in order to comply with the annual financial reporting deadline established by Ohio Rev. Code Section 117.38 and appropriately included in the financial statements based in accordance with the basis of accounting utilized by the Township for reporting purposes.

Client Response: We did not receive a response form the client.

FINDING NUMBER 2014-005

Noncompliance Citation/Material Weakness

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

Expenditures plus encumbrances exceeded appropriations at December 31, 2014 as follows:

<u>Fund</u>	<u>Expenditures Plus Encumbrances</u>	<u>Appropriation Authority</u>	<u>Variance</u>
General Fund	35,270	22,580	(12,690)
Gasoline Tax Fund	102,235	94,285	(7,950)
Road & Bridge Fund	49,957	43,970	(5,987)
Fire Fund	148,507	111,325	(37,182)

Expenditures plus encumbrances exceeded appropriations at December 31, 2013 as follows:

<u>Fund</u>	<u>Expenditures Plus Encumbrances</u>	<u>Appropriation Authority</u>	<u>Variance</u>
MLVT Fund	23,652	16,275	(7,377)
Gasoline Tax Fund	124,750	90,335	(34,415)
Road & Bridge Fund	73,605	52,880	(20,725)
Cemetery Fund	3,040	0	(3,040)

Expenditures exceeding appropriations can result in overspending available resources and deficit fund balances.

**Killbuck Township
Holmes County**

**Schedule of Audit Findings
For the Years Ended December 31, 2014 and 2013**

FINDING NUMBER 2014-005 (Continued)

Noncompliance Citation/Material Weakness

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

Client Response: We did not receive a response from the client.

**Killbuck Township
Holmes County**

**Schedule of Prior Audit Findings
For the Years Ended December 31, 2014 and 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2012-001	Noncompliance and material weakness – Amended appropriations with approval	Yes	
2012-002	Noncompliance and material weakness – did not maintain supporting documentation for trustee and fiscal officer compensation	Yes	
2012-003	Noncompliance and material weakness – Retired note principal and interest from the general fund and did not appropriate for debt payments	Yes	
2012-004	Noncompliance and material weakness – receipts incorrectly recorded	Yes	
2012-005	Noncompliance and material weakness – improperly allocated interest	Yes	
2012-006	Noncompliance and material weakness – ORC 5705.10H	Yes	
2012-007	Noncompliance – ORC 5705.41D	No	Reissued as 2014-001
2012-008	Noncompliance – employee withholdings and employer contributions	Yes	
2012-009	Noncompliance – ORC 5747.07(E)(1)	Yes	
2012-010	Noncompliance – negative fund balances	No	Reissued as 2014-002
2012 – 011	Noncompliance – ORC 5705.41(B)	Yes	Reissued as 2014-004
2012-012	Noncompliance – ORC 2921.42(A)(1)	Yes	
2012-013	Material Weakness – Bank reconciliations not performed	Yes	
2012-014	Significant Deficiency – receipts not posted in a timely manner	Yes	
2012-015	Material Weakness – no documentation to support revenues collected for chip and seal	No	Reissued as 2014-003

**Killbuck Township
Holmes County**

**Schedule of Prior Audit Findings
For the Years Ended December 31, 2014 and 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2012-016	Significant Deficiency – fire department needs to provided financial statement activity to the township for inclusion in the townships annual financial report		Reissued as 201-004
2012-017	Material Weakness- adjustments and reclassifications	Yes	
2012-018	Signification Deficiency – reports provided to trustees do not reflect current receipts	Yes	

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Dave Yost • Auditor of State

KILLBUCK 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
FEBRUARY 2, 2016**