

428 Second St.
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1035 Murdoch Ave
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121 E Main St
St. Clairsville, OH 43950
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**STOKES TOWNSHIP
MADISON COUNTY
Regular Audit
For the Years Ended December 31, 2014 and 2013**

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Dave Yost • Auditor of State

Board of Trustees
Stokes Township
5120 State Route 323 SW
South Solon, OH 43153

We have reviewed the *Independent Auditor's Report* of the Stokes Township, Madison County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2013 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them. In conjunction with the work performed by the Independent Public Accountant, the Auditor of State is issuing the following:

Ohio Rev. Code §505.601 provides that if a Township does not provide insurance for its employees, the board of township trustees may reimburse any township officer or employee for each out-of-pocket premium attributable to the coverage provided for that officer or employee for insurance benefits described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains, if all of the following conditions are met:

(A) The board of township trustees adopts a resolution that states that the township has chosen not to procure a health care plan under section 505.60 of the Revised Code and has chosen instead to reimburse its officers and employees for each out-of-pocket premium attributable to the coverage provided for them for insurance benefits described in division (A) of section 505.60 of the Revised Code that they otherwise obtain.

(B) That resolution provides for a uniform maximum monthly or yearly payment amount for each officer or employee to cover themselves and their immediate dependents, beyond which the township will not reimburse the officer or employee.

(C) That resolution states the specific benefits listed in division (A) of section 505.60 of the Revised Code for which the township will reimburse all officers and employees of the township. The township may not reimburse officers and employees for benefits other than those listed in division (A) of section 505.60 of the Revised Code.

During 2013 and 2014, the Township reimbursed the Trustees for out-of-pocket health and prescription expenses, as follows:

Board of Trustees
Stokes Township
5120 State Route 323 SW
South Solon, OH 43153
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<u>Trustee</u>	<u>2014</u>	<u>2013</u>	<u>Total</u>
Clarence Hudson	\$6,229	\$2,486	\$8,715
Linton Kelley	318	207	525
Christopher Vallery	440	999	1,439
Totals	\$6,987	\$3,692	\$10,679

These reimbursements are outside the parameters of the out-of-pocket medical premiums allowed to be reimbursed under the Ohio Rev. Code.

In accordance with the forgoing facts and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery for public monies illegally expended in favor of the Township's General Fund is hereby issued against Clarence Hudson, Linton Kelley, and Christopher Vallery, individually, in the amounts of \$8,715, \$525, and \$1,439, respectively.

We recommend the Township only reimburse for out-of-pocket medical premiums in accordance with the Ohio Rev. Code.

On June 29, 2015 the Fiscal Officer deposited \$10,679 into the Township's General Fund. This amount included \$8,715 (check #1338), \$525 (check # 10581) and \$1,439 (check # 3307) received from Clarence Hudson, Linton Kelley, and Christopher Vallery, respectively.

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. The Stokes Township is responsible for compliance with these laws and regulations.



Dave Yost
Auditor of State

September 21, 2015

STOKES TOWNSHIP
MADISON COUNTY

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INDEPENDENT AUDITOR'S REPORT

June 19, 2015

Stokes Township
Madison County
5120 State Route 323, SW
South Solon, Ohio 43153

To the Board of Trustees:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Stokes Township, Madison 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 Stokes Township, Madison 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 1B.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the Township will continue as a going concern. As discussed in Note 7 to the financial statements, the Township has suffered recurring net losses and has a deficit in the General Fund at December 31, 2014. These conditions raise substantial doubt about the Township's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 7. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2015 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.

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

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

**STOKES TOWNSHIP
MADISON COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 20,876	\$ 30,350	\$ 51,226
Charges for Services	-	2,833	2,833
Licenses, Permits and Fees	-	5,176	5,176
Intergovernmental	11,340	98,422	109,762
Earnings on Investments	133	935	1,068
Miscellaneous	2,165	7,826	9,991
<i>Total Cash Receipts</i>	<u>34,514</u>	<u>145,542</u>	<u>180,056</u>
Cash Disbursements			
Current:			
General Government	69,565	5,579	75,144
Public Safety	-	16,749	16,749
Public Works	-	56,778	56,778
Health	11,432	10,833	22,265
Capital Outlay	-	4,245	4,245
<i>Total Cash Disbursements</i>	<u>80,997</u>	<u>94,184</u>	<u>175,181</u>
<i>Net Change in Fund Cash Balances</i>	(46,483)	51,358	4,875
<i>Fund Cash Balances, January 1</i>	<u>39,420</u>	<u>211,874</u>	<u>251,294</u>
Fund Cash Balances, December 31			
Restricted	-	263,232	263,232
Unassigned (Deficit)	<u>(7,063)</u>	<u>-</u>	<u>(7,063)</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ (7,063)</u>	<u>\$ 263,232</u>	<u>\$ 256,169</u>

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

**STOKES TOWNSHIP
MADISON COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 21,331	\$ 23,494	\$ 44,825
Charges for Services	-	2,267	2,267
Licenses, Permits and Fees	-	3,700	3,700
Intergovernmental	21,375	109,433	130,808
Earnings on Investments	392	835	1,227
Miscellaneous	780	3,610	4,390
	<u>43,878</u>	<u>143,339</u>	<u>187,217</u>
<i>Total Cash Receipts</i>			
Cash Disbursements			
Current:			
General Government	78,548	-	78,548
Public Safety	-	13,044	13,044
Public Works	-	70,051	70,051
Health	9,435	4,492	13,927
Capital Outlay	21,147	18,468	39,615
	<u>109,130</u>	<u>106,055</u>	<u>215,185</u>
<i>Total Cash Disbursements</i>			
<i>Net Change in Fund Cash Balances</i>	(65,252)	37,284	(27,968)
<i>Fund Cash Balances, January 1</i>	<u>104,672</u>	<u>174,590</u>	<u>279,262</u>
Fund Cash Balances, December 31			
Restricted	-	211,874	211,874
Unassigned	39,420	-	39,420
	<u>39,420</u>	<u>-</u>	<u>39,420</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 39,420</u>	<u>\$ 211,874</u>	<u>\$ 251,294</u>

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

**STOKES TOWNSHIP
MADISON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

The Township participates in a public entity risk pool. Note 6 to the financial statements provides additional information for this entity. This organization is:

Public Entity Risk Pool

OTARMA – a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (“Members”).

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

B. Accounting Basis

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

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

C. Deposits

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

The Township maintains checking and savings accounts.

D. Fund Accounting

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

1. General Fund

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

**STOKES TOWNSHIP
MADISON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

2. Special Revenue Funds

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

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

Fire Levy – This fund receives money from property and other local taxes for the fees and disbursements of fire safety services.

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. 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 approve estimated resources.

3. Encumbrances

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

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

**STOKES TOWNSHIP
MADISON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Balance

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.

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.

**STOKES TOWNSHIP
MADISON COUNTY**

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

2. EQUITY IN POOLED DEPOSITS

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

	2014	2013
Demand Deposits	\$ 256,169	\$ 251,294
Total Deposits	\$ 256,169	\$ 251,294

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

3. BUDGETARY ACTIVITY

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

2014 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$ 33,751	\$ 34,514	\$ 763
Special Revenue	134,335	145,542	11,207
Total	\$ 168,086	\$ 180,056	\$ 11,970

2014 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 77,962	\$ 75,755	\$ 2,207
Special Revenue	340,349	99,426	240,923
Total	\$ 418,311	\$ 175,181	\$ 243,130

2013 Budgeted vs. Actual Receipts

	Budgeted Receipts	Actual Receipts	Variance
General	\$ 33,923	\$ 43,878	\$ 9,955
Special Revenue	128,401	143,339	14,938
Total	\$ 162,324	\$ 187,217	\$ 24,893

2013 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 138,358	\$ 109,130	\$ 29,228
Special Revenue	302,346	106,055	196,291
Total	\$ 440,704	\$ 215,185	\$ 225,519

Contrary to Ohio law, appropriations exceeded estimated resources in the General Fund by \$4,791 for the year ended December 31, 2014.

**STOKES TOWNSHIP
MADISON COUNTY**

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

4. PROPERTY TAX

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

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

5. RETIREMENT SYSTEMS

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

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

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, 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.

**STOKES TOWNSHIP
MADISON COUNTY**

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

Financial Position

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

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

At December 31, 2013 and 2014, respectively, the liabilities above include approximately \$7.9 and \$8.2 million of estimated incurred claims payable. The assets above also include approximately \$7.4 and \$7.2 million of unpaid claims to be billed to approximately 957 member governments in the future, as of December 31, 2013 and 2014, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Township's share of these unpaid claims collectible in future years is approximately \$4,000.

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

<u>Contributions to OTARMA</u>	
<u>2014</u>	<u>2013</u>
\$8,527	\$8,526

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.

7. GOING CONCERN

The Township's expenses have significantly exceeded revenues for fiscal year 2014 and 2013 in the General Fund, causing the fund balance to fall into the negative as of December 31, 2014.

While the Township is in a positive cash balance position overall, a significant portion of the cash is in the Special Revenue Funds. The use of these funds is limited either by statute or by levy ballot language and therefore, the Township is not permitted to use these monies to remedy the deficit General Fund balance.

**STOKES TOWNSHIP
MADISON COUNTY**

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

7. GOING CONCERN (Continued)

Based on the information currently available, the Township previously charged 100% of salaries and benefits for elected officials to the General Fund. The Township plans on charging a portion of salaries and benefits for elected officials to other allowable funds to help reduce expense in the General Fund.

The Auditor of State has various remedies available to it, the most severe of which include placing the Township on fiscal watch or fiscal emergency. The Township does not know if such action will be taken.

The accompanying financial statements do not include any adjustments that might be necessary if the Township is unable to continue as a going concern.

8. DEFICIT FUND BALANCE

The Township had a deficit fund balance of \$7,063 in the General Fund as of December 31, 2014.

9. CONTINGENT LIABILITY

The Township participates in several state assisted grants that are subject to financial and compliance audits by grantor agencies or their representatives. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The Township believes that disallowed claims, if any, will not have a material adverse effect on the Township's financial condition.



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

June 19, 2015

Stokes Township
Madison County
5120 State Route 323, SW
South Solon, Ohio 43153

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 **Stokes Township**, Madison 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 June 19, 2015, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also noted the Township has suffered recurring net losses and has a deficit in the General Fund.

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 audit findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 finding 2014-001 described in the accompanying schedule of audit findings to be a material weakness.

... "bringing more to the table"

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Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of audit findings as items 2014-002 through 2014-004.

We also noted a certain matter not requiring inclusion in this report that we reported to the Township's management in a separate letter dated June 19, 2015.

Township's Response to Findings

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

Purpose of this Report

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



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

**STOKES TOWNSHIP
MADISON COUNTY**

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

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

Material Weakness

Posting Receipts and Disbursements

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

Receipts and disbursements were not always posted correctly. The following posting errors were noted:

- Receipt from the State Fire Marshall were recorded as Miscellaneous in the General Fund instead of Intergovernmental in the Fire Fund.
- Receipt from the State Fire Marshall were recorded as Miscellaneous instead of Intergovernmental in the Fire Fund.
- Reimbursement from the County for a siren was recorded as Miscellaneous instead of Intergovernmental in the General Fund.
- Out-of-pocket health insurance reimbursements were not recorded to the appropriate funds in relation to payroll certifications.

Not posting receipts and disbursements accurately resulted in the financial statements requiring several reclassification and adjusting entries. The financial statements reflect all reclassifications and adjustments and the Township has posted the adjustments to their accounting system.

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

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

Officials' Response – I will try to assure this type of mistake will be rare in the future.

FINDING NUMBER 2014-002

Noncompliance

Ohio Rev. Code Section 505.601 states (reimbursement when a township does not offer health insurance to its officers/employees) covers reimbursements made to township officers/employees for dependent health care coverage. Reimbursement is only for the part of the out-of-pocket premium attributable to the coverage provided for the officer or employee for insurance benefits that the board could have provided under Ohio Rev. Code Section 505.60(A), and that the reimbursement covers immediate dependents in addition to the officer or employee.

During 2014 and 2013, the Township reimbursed the Fiscal Officer and Trustees for out-of-pocket health insurance premiums paid. The Township also reimbursed the Trustees for out-of-pocket medical related expenses (doctor office visits and prescriptions), which is not an allowable reimbursement under Ohio Rev. Code Section 505.601.

STOKES TOWNSHIP
MADISON COUNTY

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

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

FINDING NUMBER 2014-002 (Continued)

Noncompliance (Continued)

We recommend the Township only reimburse for allowable out-of-pocket healthcare expenses under Ohio Rev. Code Section 505.601.

Officials' Response – This will not be an issue in future audits.

FINDING NUMBER 2014-003

Noncompliance

Ohio Rev. Code Section 5705.10 requires 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 Township had negative fund balances at December 31, 2014 as follows:

Fund	Deficit
General Fund	(\$7,063)

A negative cash fund balance is an indication that revenues from other sources were used to pay obligations of these funds. Fund activity should be monitored by the Fiscal Officer to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

Officials' Response – I will try to assure that Stokes Township will keep their funds in the best positive balance possible.

FINDING NUMBER 2014-004

Noncompliance

Ohio Rev. Code Section 5705.39 states total appropriations made during the fiscal year from any fund shall not exceed estimated resources. Appropriations were in excess of estimated resources in the General Fund in the amount of \$4,791 for the year ended December 31, 2014.

We recommend the Township obtain an amended certificate of estimated resources prior to appropriations exceeding estimated resources or amend appropriations accordingly.

Officials' Response – I will do my best to keep the General Fund in the black.



Dave Yost • Auditor of State

STOKES TOWNSHIP

MADISON 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
OCTOBER 1, 2015**