



Balestra, Harr & Scherer, CPAs, Inc.

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

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WALNUT TOWNSHIP
FAIRFIELD COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2015 and 2014
Fiscal Years Audited Under GAGAS: 2015 and 2014



Dave Yost • Auditor of State

Board of Trustees
Walnut Township
1140 Millersport Road
Millersport, Ohio 43046

We have reviewed the *Independent Auditor's Report* of Walnut Township, Fairfield County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2014 through December 31, 2015. 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. Walnut 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

December 28, 2016

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Walnut Township
Fairfield County, Ohio
Table of Contents

For the Fiscal Years Ended December 31, 2015 and 2014

Title	Page
Independent Auditor's Report	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2015.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2014.....	4
Notes to the Financial Statements.....	5
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required By <i>Government Auditing Standards</i>	13
Schedule of Findings	15



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Independent Auditor's Report

Walnut Township
Fairfield County
11420 Millersport Road
Millersport, Ohio 43046

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Walnut Township, Fairfield County, (the Township), as of and for the years ended December 31, 2015 and 2014.

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 of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory basis of accounting 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, 2015 and 2014, 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 Walnut Township, Fairfield County, as of December 31, 2015 and 2014, 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 our report dated July 28, 2016, 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. 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 Standard* in considering the Township's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
July 28, 2016

Walnut Township, Fairfield County
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances
Governmental Funds
For the Year Ended December 31, 2015

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts			
Property and Other Local Taxes	84,396	1,491,164	\$ 1,575,560
Charges for Services	-	49,702	49,702
Licenses, Permits and Fees	1,696	119,819	121,515
Intergovernmental	48,917	144,514	193,431
Earnings on Investments	5,666	769	6,435
Miscellaneous	1,465	0	1,465
<i>Total Cash Receipts</i>	<u>142,140</u>	<u>1,805,968</u>	<u>1,948,108</u>
Cash Disbursements			
Current:			
General Government	96,069	47,971	144,040
Public Safety	-	1,259,229	1,259,229
Public Works	-	432,404	432,404
Health	38,124		38,124
Conservation - Recreation	6,501		6,501
Debt Service:			
Principal Retirement	-	15,993	15,993
Interest and Fiscal Charges	-	568	568
<i>Total Cash Disbursements</i>	<u>140,694</u>	<u>1,756,165</u>	<u>1,896,859</u>
<i>Net Change in Fund Cash Balances</i>	1,446	49,803	51,249
<i>Fund Cash Balances, January 1</i>	<u>758,610</u>	<u>987,789</u>	<u>1,746,399</u>
Fund Cash Balances, December 31			
Restricted	-	1,037,592	1,037,592
Unassigned	760,056	-	760,056
<i>Fund Cash Balances, December 31</i>	<u>\$ 760,056</u>	<u>\$ 1,037,592</u>	<u>\$ 1,797,648</u>

See accompanying notes to the financial statements.

Walnut Township, Fairfield 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>Totals (Memorandum Only)</u>
Cash Receipts			
Property and Other Local Taxes	\$ 82,347	1,470,487	\$ 1,552,834
Charges for Services	-	290,415	290,415
Licenses, Permits and Fees	16,304	27,033	43,337
Intergovernmental	28,853	142,797	171,650
Earnings on Investments	2,879	585	3,464
Miscellaneous	1,100	500	1,600
<i>Total Cash Receipts</i>	<u>131,483</u>	<u>1,931,817</u>	<u>2,063,300</u>
Cash Disbursements			
Current:			
General Government	98,658	54,595	153,253
Public Safety	-	1,433,350	1,433,350
Public Works	-	320,943	320,943
Health	36,599	-	36,599
Conservation - Recreation	5,050	-	5,050
Debt Service:			
Principal Retirement	-	15,720	15,720
Interest and Fiscal Charges	-	842	842
<i>Total Cash Disbursements</i>	<u>140,307</u>	<u>1,825,450</u>	<u>1,965,757</u>
<i>Net Change in Fund Cash Balances</i>	(8,824)	106,367	97,543
<i>Fund Cash Balances, January 1</i>	<u>767,434</u>	<u>881,422</u>	<u>1,648,856</u>
Fund Cash Balances, December 31			
Restricted	-	987,789	987,789
Unassigned (Deficit)	<u>758,610</u>	<u>-</u>	<u>758,610</u>
<i>Fund Cash Balances, December 31</i>	<u>\$ 758,610</u>	<u>\$ 987,789</u>	<u>\$ 1,746,399</u>

See accompanying notes to the financial statements.

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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 Walnut Township, Fairfield County (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, and cemetery maintenance. The Township contracts with the Thurston-Walnut Township Fire Department and the Village of Millersport to provide fire services and to provide ambulance services. Police protection is provide by the Fairfield County Sheriff's department.

The Township participates in a jointly governed organizations and the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 7 and 8 to the financial statements provide additional information for this entity.

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. Cash and Deposits

The township deposits all available funds in a non-interest bearing checking account at a local commercial bank. All deposits are valued at cost.

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 and reported in another fund.

2. Special Revenue Funds

These funds account for proceeds of specific revenue sources (other than from private-purpose trust or for capital projects) that are restricted or committed to expenditure for specified purposes.

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

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

Fire Operating Fund – This fund receives real estate property tax, manufactured home tax, and homestead and rollback money to pay for providing fire and emergency medical services.

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

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. Unencumbered 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 canceled, and reappropriated in the subsequent year.

A summary of 2015 and 2014 budgetary activity appears in Note 3.

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(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.

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

2. Equity in Pooled Cash

The Township maintains a cash 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:

	2015	2014
Checking Account	\$ 1,044,792	\$ 998,510
Certificates of Deposit	752,856	747,889
Total Deposits and Investments	\$ 1,797,648	\$ 1,746,399

Deposits: Deposits are 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 year ending December 31, 2015 and 2014 as follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 881,912	\$ 142,140	\$ (739,772)
Special Revenue	2,997,733	1,805,968	(1,191,765)
Total	\$ 3,879,645	\$ 1,948,108	\$ (1,931,537)

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 191,542	\$ 140,694	\$ 50,848
Special Revenue	2,114,433	1,756,165	358,268
Total	\$ 2,305,975	\$ 1,896,859	\$ 409,116

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

3. Budgetary Activity (Continued)

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 867,921	\$ 131,483	\$ (736,438)
Special Revenue	2,798,433	1,931,817	(866,616)
Total	\$ 3,666,354	\$ 2,063,300	\$ (1,603,054)

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 199,542	\$ 140,307	\$ 59,235
Special Revenue	1,996,605	1,825,450	171,155
Total	\$ 2,196,147	\$ 1,965,757	\$ 230,390

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.

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

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

5. Debt

Debt outstanding at December 31, 2015 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Promissory Note – Wheel Loader	\$11,637	3.5%

The Township issued a Promissory Note in 2013 to purchase a wheel loader for the road department. The Township’s taxing authority collateralized the note.

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

	<u>Promissory Note</u>
Year ended December 31:	
2016	\$11,637

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2015 and 2014, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of the participants’ gross salaries. The Township has paid all contributions required through December 31, 2015.

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.) (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.

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

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, 2015, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

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

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

At December 31, 2015 and 2014, respectively, the liabilities above include approximately \$7.8 and \$8.2 million of estimated incurred claims payable. The assets above also include approximately \$7.7 and \$7.2 million of unpaid claims to be billed to approximately 989 member governments in the future, as of December 31, 2015 and 2014, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Township's share of these unpaid claims collectible in future years is approximately \$9,718.

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>Township Contributions to OTARMA</u>		
2015	\$	14,022
2014		13,473

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.

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

8. Jointly Governed Organizations

Fairfield Regional Planning Commission – The Township appoints a person to represent the Township on the 48 member board of the Fairfield Regional Planning Commission. The Township pays a small membership fee annually. The fee is based on the per capita of the Township. There is no ongoing financial interest of responsibility by the Township.

9. Joint Ventures

The Township is in a joint venture with the Village of Thurston to operate the Thurston-Walnut Township Joint Fire Department. The Township contributes a portion every year towards the operation of the Thurston-Walnut Joint Fire Department. Monies are provided from the fire levies each year as determined by the annual budget prepared by the fire chief of the Thurston-Walnut Township Joint Fire Department. The budget is forwarded to the Village of Thurston Council and Walnut Township Trustees for approval. During 2015 and 2014, the Township paid the Thurston-Walnut Fire Department \$67,963 and \$54,727, respectively, for contract services.

Upon the nonexistence of the Thurston-Walnut Fire Department, the assets of the fire department will be divided equally between the Village of Thurston and Walnut Township. For more information regarding the Thurston-Walnut Fire Department, contact the Village of Thurston. The Village accounts for the Fire Department in a separate fund.

10. Contingencies

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 determined amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

11. Non-compliance

During 2015 and 2014 the Township did not comply with US Code 26 3403 regarding timely and accurate submission and payment of federal taxes, medicare and social security.

Further, the township did not obtain supporting documentation as required by Ohio Revised Code Section 505.60 for reimbursements of health care insurance premiums to the trustees and one employee.



Balestra, Harr & Scherer, CPAs, Inc.

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

Walnut Township
Fairfield County
11420 Millersport Road
Millersport, Ohio 43046

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of Walnut Township, Fairfield County, (the Township) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated July 28, 2016 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. 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 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. We consider findings 2015-001 and 2015-002 described in the accompanying schedule of findings to be material weaknesses.

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 2015-005 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 2015-003 and 2015-004.

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.

Balestra, Harr & Scherer, CPAs
Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
July 28, 2016

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

Findings Related to the Financial Statements Required
To be Reported in Accordance with GAGAS

FINDING NUMBER 2015-001

Material Weakness – Controls Over Financial Statement Preparation

Employees of the Township do not possess the requisite amount of knowledge or experience necessary to prevent, detect and correct a material misstatement in the financial statements prepared in accordance with the accounting basis permitted by the Ohio Auditor of State.

Paragraph 18 of Statement on Auditing Standards No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, states in part:

“Deficiencies in the following areas ordinarily are at least significant deficiencies in internal control:

Controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles. Having sufficient expertise in selecting and applying accounting principles is an aspect of such controls.

Controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the ledger; and record recurring and nonrecurring adjustments to the financial statements.”

Furthermore, paragraph 19 states in part:

“Each of the following is an indicator of a control deficiency that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

Ineffective oversight of the entity’s financial reporting and internal control by those charged with governance.”

The Township did not present the required disclosures that the Auditor of State of Ohio requires. Further, the Township has inadequate policies and procedures related to controls necessary to minimize the risk of a material misstatement of financial statements.

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

Findings Related to the Financial Statements Required To be Reported in Accordance with GAGAS
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FINDING NUMBER 2015-001 (Continued)

Material Weakness – Controls Over Financial Statement Preparation (Continued)

A significant potential exists for misstatements to occur in the financial statements without being detected by employees or management in a timely manner.

The Township should develop policies and procedures to ensure the financial statements are free from material misstatement. This may be accomplished by employing qualified personnel that are knowledgeable with the complex requirements associated with financial reporting. Conversely, the entity may consider contracting with an outside firm knowledgeable in this specialized area to help with this management function.

Township’s Response:

The Township did not respond to this finding

FINDING NUMBER 2015-002

Material Weakness – Accounting System and Bank Reconciliations

During our test of the Township’s bank reconciliations, we noted a number of reconciling items without supporting documentation. We also noted that often cash receipts and disbursements were not being posted to the accounting system in a timely manner. Furthermore, it was noted that the Township maintains a separate bank account for Emergency Medical Services but information from this account was not being recorded in the accounting system until periodic transfers were made from this account to the general checking account. The township only made this type of interbank transfer one time in 2014 and two times in 2015. This caused cash receipts to be misstated for both 2014 and 2015.

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statements and the cash and investment balances according to the entity’s records. This process involves reconciling the bank balance to the cash and investment balance. Without complete and accurate monthly bank reconciliations, the Township’s internal control is weakened, which could hinder the detection of errors or irregularities by the Township’s management in a timely manner.

Most of the problems encountered within the area of cash can be avoided if a proper system of checks and balances is incorporated into the Township’s procedures. We recommend that all of the bank accounts be reconciled monthly to the accounting system and that all suspicious reconciling items be promptly investigated and adjusted with adequate explanations. The Board of Trustees should sign and date the bank reconciliations to indicate that they have been reviewed.

Township’s Response:

The Township did not respond to this finding

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

Findings Related to the Financial Statements Required
To be Reported in Accordance with GAGAS

FINDING NUMBER 2015-003

Non-Compliance – 26 U.S. Code 3403

The Township was not submitting information to the Internal Revenue Service for amounts paid for federal taxes, medicare and social security. Figures that were submitted on the 941 statements did not match the Uniform Accounting Network reports. We also noted that penalties and interest were charged for late and inaccurate payments.

26 United States Code Section 3403 states the employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter. 26 United States Code Section 3404 states if the employer is the United States, or a State, or political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing, the return of the amount deducted and withheld upon any wages may be made by any officer or employee of the United States, or of such State, or political subdivision, or of the District of Columbia, or of such agency or instrumentality, as the case may be, having control of the payment of such wages, or appropriately designated for that purpose. Employers who withhold income taxes from wages or who must pay social security or Medicare tax, use Form 941 to report those taxes.

We recommend that 941 payments are made in a timely manner to avoid penalty and interest payments. We also suggest that the client review 941 statements and compare them closely to the Uniform Accounting Network.

Township's Response:

The Township did not provide a response to this finding.

FINDING NUMBER 2015-004

Non-Compliance – ORC 505.60

The Township was not maintaining supporting documentation to support the reimbursements of insurance premiums paid to the trustees and one employee during 2014 and 2015.

Generally, Ohio Rev. Code §505.60 permits townships to procure their own healthcare coverage, while Ohio Rev. Code §505.601 permits townships to opt not to procure their own plans, but still reimburse officers' and employees' for their healthcare premiums. Ohio Rev. Code §505.60 specifically permits townships to procure the following forms of healthcare coverage: hospitalization, surgical care, major medical care, disability, dental care, eye care, medical care, hearing aids, prescription drugs, or sickness and accident insurance. In addition, Ohio Rev. Code §505.60 allows townships to reimburse a township officer or employee for out-of-pocket premiums for insurance policies, including long-term care insurance. The reimbursement is permitted for a township officer or employee who is denied coverage under a township health care plan established pursuant to Ohio Rev. Code §505.60, **or** who elects not to participate in the township's plan. The township may reimburse for each out-of-pocket premium attributable to the coverage provided for the officer or employee for insurance benefits that the board could have

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

Findings Related to the Financial Statements Required To be Reported in Accordance with GAGAS
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FINDING NUMBER 2015-004 (Continued)

Non-Compliance – ORC 505.60 (Continued)

provided under Ohio Rev. Code §505.60(A). The reimbursement for the officer, employee, and their immediate dependent cannot exceed an amount equal to the average premium paid by the township under any health care plan it procures [Ohio Rev. Code §505.60(D)].

Requirements governing township-procured health insurance coverage apply equally to township-paid coverage through a health insuring corporation contract as follows:

- that an officer or employee may decline coverage under either method without affecting the availability of coverage to other officers and employees
- that either method may provide the same kinds of coverage
- that coverage under either method is to be paid from the same township sources used to pay employee and officer compensation
- that immediate dependents may be covered under either method
- that reimbursement of an officer or employee for premiums paid for alternative coverage (e.g., through a spouse) is only for the part of the premium paid for the same kinds of coverage offered by the township's plan, whether it be provided through insurance or a health insuring corporation contract

The statute does not permit reimbursements for:

- deductibles
- the employer's portion of premiums
- healthcare expenses related to family members, not on the township healthcare plan

If a township opts not to procure its own health insurance, it still is permitted to reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs pursuant to Ohio Rev. Code §505.601. However, pursuant to Ohio Rev. Code §505.601, the township must meet the following three conditions:

1. The board of township trustees adopts a resolution stating that the township has chosen not to procure a health care plan and has chosen instead to reimburse its officers and employees for each out-of-pocket premium,
2. The resolution provides for a uniform maximum monthly or yearly payment amount for each officer and employee,
3. The resolution states the specific benefits, pursuant to Ohio Rev. Code §505.60(A), that will be reimbursed.

The Township should require supporting documentation be provided for health care reimbursements and ensure that all requirements of the Ohio Revised Code are being complied with prior to issuing reimbursements for insurance expenses.

Township's Response:

The Township did not provide a response to this finding.

**WALNUT TOWNSHIP
FAIRFIELD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014**

Findings Related to the Financial Statements Required
To be Reported in Accordance with GAGAS

FINDING NUMBER 2015-005

Significant Deficiency – Credit Card Policy

Although the Township does have certain credit card policies that are being followed, there is no formal documentation of these policies. We recommend that the Township document formal credit card policies and possibly expand on them to make sure they include a requirement that supporting receipts be submitted for all charges for which it is practical to obtain a receipt. Also, the business purpose of the expense should be clearly documented, and the policies should limit the use of the credit card for certain specified transactions.

During our audit procedures it was noted that support for credit card charges is not consistently attached to the payment vouchers of credit card statements. This practice could result in the payment of unsupported credit card charges and thereby unauthorized expenses. We recommend that the procedures related to credit card charges be amended to require supporting documentation for all charges or written documentation stating the business purpose of charges if it is not practical to obtain a receipt.

Township's Response:

The Township did not provide a response to this finding.



Dave Yost • Auditor of State

WALNUT TOWNSHIP

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 10, 2017