



Dave Yost • Auditor of State



PENFIELD TOWNSHIP  
LORAIN COUNTY

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# Dave Yost • Auditor of State

Penfield Township  
Lorain County  
41012 State Route 18  
Wellington, Ohio 44090

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Township to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

**Dave Yost**  
Auditor of State

August 10, 2012

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Penfield Township  
Lorain County  
41012 State Route 18  
Wellington, Ohio 44090

To the Board of Trustees:

We have audited the accompanying financial statements of Penfield Township, Lorain County, Ohio, (the Township) as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Township to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2011 and 2010, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of Penfield Township, Lorain County, Ohio, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 2, during 2011 Penfield Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Dave Yost**  
Auditor of State

August 10, 2012



**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$168,614	\$0	\$0	\$168,614
Licenses, Permits, and Fees	1,065	2,915	0	3,980
Intergovernmental	64,711	94,590	72,511	231,812
Earnings on Investments	3,598	0	0	3,598
Miscellaneous	30,779	21,889	0	52,668
Total Cash Receipts	<u>268,767</u>	<u>119,394</u>	<u>72,511</u>	<u>460,672</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	156,431	42	0	156,473
Public Safety	0	13,685	0	13,685
Public Works	5,706	80,483	0	86,189
Health	3,526	6,189	0	9,715
Conservation/Recreation	21,754	0	0	21,754
Capital Outlay	0	5,446	72,511	77,957
Total Cash Disbursements	<u>187,417</u>	<u>105,845</u>	<u>72,511</u>	<u>365,773</u>
Total Receipts Over/(Under) Disbursements	<u>81,350</u>	<u>13,549</u>	<u>0</u>	<u>94,899</u>
<b>Other Financing Receipts / (Disbursements):</b>				
Transfers-In	0	7,135	0	7,135
Transfers-Out	(7,135)	0	0	(7,135)
Other Financing Sources	1,592	0	0	1,592
Other Financing Uses	(9)	(19,361)	0	(19,370)
Total Other Financing Receipts / (Disbursements)	<u>(5,552)</u>	<u>(12,226)</u>	<u>0</u>	<u>(17,778)</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	75,798	1,323	0	77,121
Fund Cash Balances, January 1	<u>278,122</u>	<u>63,038</u>	<u>0</u>	<u>341,160</u>
Fund Cash Balance, December 31				
Restricted	0	64,361	0	64,361
Unassigned	353,920	0	0	353,920
<b>Fund Cash Balance, December 31</b>	<u><b>\$353,920</b></u>	<u><b>\$64,361</b></u>	<u><b>\$0</b></u>	<u><b>\$418,281</b></u>

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

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$162,223	\$0	\$0	\$162,223
Licenses, Permits, and Fees	1,905	3,300	0	5,205
Intergovernmental	63,419	95,828	10,321	169,568
Earnings on Investments	498	19	0	517
Miscellaneous	19,976	20,698	0	40,674
Total Cash Receipts	<u>248,021</u>	<u>119,845</u>	<u>10,321</u>	<u>378,187</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	133,652	0	0	133,652
Public Safety	0	12,060	0	12,060
Public Works	11,743	85,544	0	97,287
Health	3,690	6,845	0	10,535
Conservation/Recreation	15,054	0	10,321	25,375
Capital Outlay	47,759	3,484	0	51,243
Total Cash Disbursements	<u>211,898</u>	<u>107,933</u>	<u>10,321</u>	<u>330,152</u>
Total Receipts Over/(Under) Disbursements	<u>36,123</u>	<u>11,912</u>	<u>0</u>	<u>48,035</u>
<b>Other Financing Receipts:</b>				
Other Financing Sources	3,115	0	0	3,115
Total Other Financing Receipts	<u>3,115</u>	<u>0</u>	<u>0</u>	<u>3,115</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements	39,238	11,912	0	51,150
Fund Cash Balances, January 1	<u>238,884</u>	<u>51,126</u>	<u>0</u>	<u>290,010</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$278,122</u></b>	<b><u>\$63,038</u></b>	<b><u>\$0</u></b>	<b><u>\$341,160</u></b>
Reserve for Encumbrances, December 31	<u>\$6,229</u>	<u>\$717</u>	<u>\$0</u>	<u>\$6,946</u>

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

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010**

**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 the Penfield Township, Lorain County, Ohio, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township's police protection is provided by the Lorain County Sheriff. The Township is a member of the Wellington Community Fire District which provides fire protection and the Southern Lorain County Ambulance District which provides ambulance and emergency medical services.

The Township participates in four jointly governed organizations and the Ohio Township Association Risk Management Authority public entity risk pool. Notes 6 and 7 to the financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organizations:

*South Lorain County Ambulance District  
Wellington Community Fire District  
Rural Lorain County Water Authority  
Lorain County Rural Wastewater District*

Public Entity Risk Pool:

*Ohio Township Association Risk Management Authority*

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 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.

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

**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:

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**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 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 Fund:

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

**3. Capital Project Funds**

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant Capital Project Fund:

Public Works Commission Fund - The Township received a grant from the State of Ohio for the Webster Road Widening – Phase II project.

Miscellaneous Capital Projects Fund – In fiscal year 2010, the Township received a grant from the Ohio Department of Natural Resources for the Renovation of the Recreation Park Pavilion and Concession Stand.

**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 level, 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. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

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

PENFIELD TOWNSHIP  
LORAIN COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)

1. Summary of Significant Accounting Policies (Continued)

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. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

For December 31, 2011, 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.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

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.

**2. Change in Accounting Principle**

For fiscal year 2011, the Township has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The implementation of this Statement did not have an effect on the Township's financial statements.

**3. Equity in Pooled Deposits and Investments**

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

	2011	2010
Demand deposits	\$251,738	\$157,486
Certificates of deposit	166,543	164,303
Total deposits	418,281	321,789
STAR Ohio	0	19,371
Total investments	0	19,371
Total deposits and investments	\$418,281	\$341,160

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

**Investments:** Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**4. Budgetary Activity**

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$283,156	\$270,359	(\$12,797)
Special Revenue	93,431	126,529	33,098
Capital Projects	69,515	72,511	2,996
Total	\$446,102	\$469,399	\$23,297

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$435,140	\$194,561	\$240,579
Special Revenue	120,200	125,206	(5,006)
Capital Projects	79,580	72,511	7,069
Total	\$634,920	\$392,278	\$242,642

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$274,133	\$251,136	(\$22,997)
Special Revenue	128,675	119,845	(8,830)
Capital Projects	171,138	10,321	(160,817)
Total	\$573,946	\$381,302	(\$192,644)

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$238,359	\$218,127	\$20,232
Special Revenue	125,950	108,650	17,300
Capital Projects	171,138	10,321	160,817
Total	\$535,447	\$337,098	\$198,349

Contrary to Ohio Law, budgetary expenditures exceeded appropriation authority at December 31, 2011 and December 31, 2010 in the Gasoline Tax fund by \$18,306 and \$6,963, respectively.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**5. 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.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**6. Retirement Systems**

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

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, 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, 2011.

**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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.



**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**7. Risk Management (Continued)**

Casualty and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2010, OTARMA retained \$350,000 for casualty claims and \$150,000 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, 2010 and 2009 (the latest information available):

	<u>2010</u>	<u>2009</u>
Assets	\$35,855,252	\$38,982,088
Liabilities	<u>(10,664,724)</u>	<u>(12,880,766)</u>
Net Assets	<u>\$25,190,528</u>	<u>\$26,101,322</u>

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$9.9 and \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$9.5 and \$11.5 million of unpaid claims to be billed to approximately 940 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Township's share of these unpaid claims collectible in future years is approximately \$17,310.

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>2010</u>	<u>2009</u>
\$7,452	\$6,099

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**7. Risk Management (Continued)**

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.

**8. Jointly Governed Organizations**

**South Lorain County Ambulance District**

The Ambulance District is organized pursuant to Ohio Rev. Code Section 505.71 and is directed by an appointed seven-member Board of Trustees representing the Village of Wellington, and Wellington, Huntington, Penfield, Rochester, Brighton, and Pittsfield Townships. The Ambulance District provides emergency medical services to the residents within the Ambulance District which includes the Township.

**Wellington Community Fire District**

The Fire District is organized pursuant to Ohio Rev. Code Section 505.371 and is directed by an appointed six-member Board of Trustees representing the Village of Wellington and Wellington, Huntington, Penfield, Brighton, and Pittsfield Townships. The Fire District provides fire protection and rescue services within the Fire District which includes the Township.

**Lorain County Rural Water Authority**

The Rural Lorain County Water Authority, a regional water district, is a political subdivision of the State of Ohio created by order of the Lorain County Common Pleas Court. The Authority was declared by the Court, on August 23, 1973 to be a duly organized regional water district, a political subdivision of the state of Ohio organized pursuant to Chapter 6119 of the Ohio Revised Code. The Authority operates under a Board of Trustees, which consists of as many members as equals the total number of villages and townships within this regional water district.

**Lorain County Rural Wastewater District (LORCO)**

LORCO is a wastewater district organized pursuant to Ohio Rev. Code Section 6119 and is directed by a Board of Trustees representing one each of the 13 township and three village members. LORCO was organized to provide wastewater treatment services to its members and has applied to the appropriate authorities for recognition as a Designated Management Agency under Section 208 of the Clean Water Act.



# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Penfield Township  
Lorain County  
41012 State Route 18  
Wellington, Ohio 44090

To the Board of Trustees:

We have audited the financial statements of Penfield Township, Lorain County, Ohio, (the Township) as of and for the year ended December 31, 2011 and 2010, and have issued our report thereon dated August 10, 2012 wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. Furthermore, we noted the Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* for the year ended December 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

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

Lausche Building, 615 Superior Ave., NW, Twelfth Floor, Cleveland, Ohio 44113-1801

Phone: 216-787-3665 or 800-626-2297 Fax: 216-787-3361

[www.ohioauditor.gov](http://www.ohioauditor.gov)

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-03 described in the accompanying schedule of findings to be material weaknesses.

### **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, providing an opinion 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 2011-01 through 2011-05.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated August 10, 2012.

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

We intend this report solely for the information and use of management, the Board of Trustees, and others within the Township. We intend it for no one other than these specified parties.



**Dave Yost**  
Auditor of State

August 10, 2012

PENFIELD TOWNSHIP  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010

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

FINDING NUMBER 2011-01

**Finding for Recovery Repaid Under Audit / Material Noncompliance: Fiscal Officer Payroll Overpayment**

Pursuant to Ohio Revised Code Section 507.09(A)(8), in calendar year 2011, in a township having a budget of more than five hundred thousand dollars (\$500,000) but not more than seven hundred fifty thousand dollars (\$750,000), the compensation of the township fiscal officer shall be \$14,147. Though a township's budget may increase over the \$750,000 threshold during the year, a fiscal officer's salary may not increase in-term. Ohio Constitution art. 20, §20; *Artmayer v. Board of Trustees of Delhi Township* (1975), 43 Ohio St.2d 62; 1952 OAG No. 1540.

The Township's Certificate of Estimated Resources, as approved by the County Budget Commission, for fiscal year 2011 was \$728,744 from January 1 through October 19; \$725,533 from October 20 through December 18; \$796,113 from December 19 through December 30; and \$786,048 from December 30 through December 31, 2011. As such, the maximum annual salary for the Township Fiscal Officer and each of the Township Trustees, for January through December 18, 2011, should have been \$14,147.

A review of the payroll records indicate Eleanor Gndt, Fiscal Officer, was paid the annual compensation of \$16,977 for the entire year of 2011 and as a result, an overpayment of \$2,731 occurred.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Eleanor Gndt, Fiscal Officer, and her bonding company, Travelers Casualty and Surety Company of America, jointly and severally in the amount of \$2,731 and in favor of the Penfield Township's General Fund.

The finding for recovery was fully repaid under audit by former Fiscal Officer Eleanor Gndt.

**Officials' Response:** The Fiscal Officer will regularly review and amend the Certificate of Estimated Resources for the correct compensation level. The former Fiscal Officer has repaid the overpayment.

PENFIELD TOWNSHIP  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

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

FINDING NUMBER 2011-02

**Finding for Recovery Repaid Under Audit / Material Noncompliance : Trustees Payroll  
Overpayment**

Pursuant to Ohio Revised Code Section 505.24(A)(5), in calendar year 2011, in a township having a budget of more than five hundred thousand dollars (\$500,000) but not more than seven hundred fifty thousand dollars (\$750,000), the annual compensation of the township trustees shall be \$9,004. Though a township's budget may increase over the \$750,000 threshold during the year, a trustee's salary may not increase in-term. Ohio Constitution art. 20, §20; *Artmayer v. Board of Trustees of Delhi Township* (1975), 43 Ohio St.2d 62; 1952 OAG No. 1540.

The Township's Certificate of Estimated Resources, as approved by the County Budget Commission, for fiscal year 2011 was \$728,744 from January 1 through October 19; \$725,533 from October 20 through December 18; \$796,113 from December 19 through December 30; and \$786,048 from December 30 through December 31, 2011. As such, the maximum annual salary for the Township Trustees, for January through December 18, 2011, should have been \$9,004.

A review of the payroll records indicate that each Township Trustee was paid the annual compensation of \$10,288 for the entire year of 2011 and as a result, an overpayment of \$1,239 individually for each of three Township Trustees. These monthly payments were authorized by Fiscal Officer, Eleanor Gndt.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a Finding for Recovery for public monies illegally expended is hereby issued against Richard Conrad, Lloyd Gordon, and Duane Johnson and their bonding company, Ohio Township Association Risk Management Authority, jointly and severally in the amount of \$1,239 each and in favor of the Penfield Township's General Fund. In addition Eleanor Gndt, Fiscal Officer, and her bonding company, Travelers Casualty and Surety Company of America are jointly and severally liable.

The finding for recovery was fully repaid under audit. Trustees Richard Conrad, Lloyd Gordon, and Duane Johnson each repaid \$1,239.

**Officials' Response:** The Fiscal Officer will regularly review and amend the Certificate of Estimated Resources for the correct compensation level. The Trustees have repaid the overpayment.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)**

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

**FINDING NUMBER 2011-03**

**Material Noncompliance / Material Weakness: Ohio Public Works Commission**

Chapter 5705 of the Revised Code sets forth a mechanism that provides for a uniform budget and appropriation process in order to assure that a government entity expends no more than it expects to receive in revenue. In order to accomplish this end, all appropriations must be accounted to and from each appropriation fund. While federal and state grants are deemed appropriated and in the process of collection so as to be available for expenditure, they must still be recorded per Revised Code Section 5705.42. Thus, a mechanism is still required to account for receipt and expenditure. That mechanism is an amendment of, or a supplement to, the entity's estimated resources, or its appropriation measure, which shall comply with all provisions of law governing the taxing authority in making an original appropriation per Revised Code Section 5705.40. An original appropriation measure must be passed by the taxing authority, and any amendment of, or supplement to, that measure also requires legislative action per Revised Code Section 5705.38.

The Township was the beneficiary of \$72,511 of Ohio Public Work Commission (OPWC) money in 2011. \$69,515 was sent directly to the vendor by OPWC and \$2,996 was a reimbursement to the Township. The Township failed to record \$63,143 of the total \$69,515 that was paid on-behalf of the Township in 2011 as a receipt and expenditure. Furthermore, the Township failed to record the total amount received of \$72,511 in the Ohio Public Works Commission Fund. The accompanying financial statements and accounting records were adjusted to reflect these amounts in the Capital Project Fund. In addition, the Township failed to appropriate and certify the monies to the county until December 2011, although the monies were granted to the Township on July 1, 2011.

Failure to properly record these monies prevent the financial statements, accounting records, and budgetary documents from being accurate and complete.

The Township should follow the budgetary requirements of Chapter 5705 of the Revised Code and monitor appropriations, amending them as appropriate to record these funds. When the Township receives notice that it has been approved for funding by a State or Federal agency, the Fiscal Officer should review the reporting requirements established by Auditor of State Bulletins 2000-008 and 2002-004, certify the available resources to the County Budget Commission, amend its appropriations measure to account for the grant funds, and when notified the funds have been expended on its behalf, make memo entries to post the revenues and expenditures to the Township's books.

**Officials' Response:** The Fiscal Officer will review AOS Bulletins 2000-008 and 2002-004 to ensure future compliance.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)**

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

**FINDING NUMBER 2011-04**

**Material Noncompliance : Expenditures Exceeding Appropriations**

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. Contrary to Ohio Law, budgetary expenditures exceeded appropriation authority at December 31, 2011 and 2010 in the Gasoline Tax Fund by \$18,306 and \$6,963, respectively.

The Township should monitor appropriations and expenditures monthly, at a minimum, to ensure that expenditures do not exceed appropriations. The Township should amend the appropriations as needed to avoid expenditures in excess of appropriations. If the Township receives additional monies, then they should follow procedures to appropriate those. Failure to limit expenditures to appropriations could lead to expenditures exceeding available resources and ultimately, negative fund balances.

**Officials' Response:** The Fiscal Officer will review the appropriations and expenditures of the Township monthly.

**FINDING NUMBER 2011-05**

**Material Noncompliance: Transfers**

Ohio Revised Code Sections 5705.14, 5705.15, and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Revised Code Section 5705.14, transfers from funds other than the General Fund may be made by resolution of the taxing authority, passed with a two-thirds affirmative vote. In addition to transfers from the General Fund and those permitted by Ohio Revised Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, may transfer from one fund to any other public funds under its supervision, with certain exceptions, which are detailed in Ohio Rev. Code Section 5705.15.

Except in the case of transfers from the General Fund, transfers can be made only by resolution of the taxing authority passed with the affirmative vote of two thirds of the members. Transfers from the General Fund require a resolution passed by a simple majority of the board members (i.e., a two thirds vote is not required for General Fund transfers though a resolution is required).

Transfers must be approved and clearly labeled as such by a formal resolution of the taxing authority of the subdivision which must include a specific statement that the transaction is a transfer of cash. During our audit, we noted the Township made seven transfers in 2011 from the General Fund to Special Revenue funds without Board approval. The total amount of transfers made without Board approval was \$7,135 and is considered material to the Special Revenue fund type.



PENFIELD TOWNSHIP  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010  
(CONTINUED)

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

**FINDING NUMBER 2011-05 (Continued)**

If the Township desires to transfer monies from the General Fund to Special Revenue funds, they should first receive Board approval prior to transfer. The Fiscal Officer should make transfers in accordance with the aforementioned Ohio Revised Code provisions. All transfers should be approved by the Board prior to being entered into the Township's accounting system.

**Officials' Response:** The Fiscal Officer will process all inter-fund transfers according to ORC Sections 5705.14-16.

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# Dave Yost • Auditor of State

**PENFIELD TOWNSHIP**

**LORAIN 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  
AUGUST 28, 2012**