



Dave Yost • Auditor of State



HENRIETTA TOWNSHIP  
LORAIN COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Henrietta Township  
Lorain County  
12050 Vermilion Road  
Amherst, Ohio 44001

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 Henrietta Township, Lorain County, Ohio (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 adverse and qualified audit opinions.

***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 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 Qualification 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.

***Basis for Opinion Qualification***

The Township reported the Kellogg Trust Fund totaling \$789 at December 31, 2015 and 2014, respectively, representing 100 percent of the ending fund balance of the Permanent Fund, without obtaining the trust agreement to support this classification as a Permanent Fund. Also, we were unable to determine the appropriate fund balance classifications for the Permanent Fund as the original corpus amount is not known. Consequently, we were unable to determine whether an adjustment to this amount was necessary.

***Opinion Qualification on Regulatory Basis of Accounting***

In our opinion, except the possible effects of the matter described based in the *Basis for Opinion Qualification* paragraph, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Henrietta Township, Lorain County, Ohio 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 November 17, 2016, 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 "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 17, 2016

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**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Special Revenue	Debt Service	Capital Projects	Permanent	Totals (Memorandum Only)
<b>Cash Receipts</b>						
Property and Other Local Taxes	\$106,883	\$148,386				\$ 255,269
Licenses, Permits and Fees	7,410					7,410
Intergovernmental	55,620	118,056		\$36,407		210,083
Earnings on Investments	343	11				354
Miscellaneous	32,214					32,214
<i>Total Cash Receipts</i>	<u>202,470</u>	<u>266,453</u>		<u>36,407</u>		<u>505,330</u>
<b>Cash Disbursements</b>						
Current:						
General Government	85,804					85,804
Public Safety		46,957				46,957
Public Works	14,522	185,691				200,213
Health	7,957	1,373				9,330
Human Services	24,826	22,778				47,604
Capital Outlay				36,407		36,407
<i>Total Cash Disbursements</i>	<u>133,109</u>	<u>256,799</u>		<u>36,407</u>		<u>426,315</u>
<i>Net Change in Fund Cash Balances</i>	69,361	9,654				79,015
<i>Fund Cash Balances, January 1</i>	<u>52,127</u>	<u>383,119</u>	<u>372</u>		<u>789</u>	<u>436,407</u>
<b>Fund Cash Balances, December 31</b>						
Restricted		392,773	372		789	393,934
Unassigned (Deficit)	121,488					121,488
<i>Fund Cash Balances, December 31</i>	<u>\$121,488</u>	<u>\$392,773</u>	<u>\$ 372</u>		<u>\$ 789</u>	<u>\$ 515,422</u>

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

**HENRIETTA TOWNSHIP  
LORAIN 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	Debt Service	Capital Projects	Permanent	Totals (Memorandum Only)
<b>Cash Receipts</b>						
Property and Other Local Taxes	\$50,475	\$ 150,138				\$ 200,613
Licenses, Permits and Fees	3,975					3,975
Intergovernmental	93,394	134,893		\$67,562		295,849
Miscellaneous	12,596					12,596
<i>Total Cash Receipts</i>	<u>160,440</u>	<u>285,031</u>		<u>67,562</u>		<u>513,033</u>
<b>Cash Disbursements</b>						
Current:						
General Government	89,511					89,511
Public Safety		40,482				40,482
Public Works	11,434	151,808				163,242
Health	10,205	723				10,928
Human Services	24,148	45,281				69,429
Capital Outlay	16,004			68,837		84,841
<i>Total Cash Disbursements</i>	<u>151,302</u>	<u>238,294</u>		<u>68,837</u>		<u>458,433</u>
<i>Net Change in Fund Cash Balances</i>	9,138	46,737		(1,275)		54,600
<i>Fund Cash Balances, January 1</i>	<u>42,989</u>	<u>336,382</u>	<u>372</u>	<u>1,275</u>	<u>789</u>	<u>381,807</u>
<b>Fund Cash Balances, December 31</b>						
Restricted		383,119	372		789	384,280
Unassigned (Deficit)	<u>52,127</u>					<u>52,127</u>
<i>Fund Cash Balances, December 31</i>	<u>\$52,127</u>	<u>\$383,119</u>	<u>\$ 372</u>		<u>\$ 789</u>	<u>\$ 436,407</u>

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

**HENRIETTA TOWNSHIP  
LORAIN 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 the Henrietta Township, Lorain 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 Camden and Florence Townships, and the Village of South Amherst to provide fire services and the Central Lorain County Ambulance District to provide ambulance services

The Township participates in Ohio Township Association Risk Management Authority, a public entity risk pool. Note 7 to the financial statements provides additional information for these entities.

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 permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board of Trustees 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. 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 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:

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

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

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

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

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

Special Levy Fund - This fund receives property tax and intergovernmental monies to pay for fire protection and EMS services.

**3. Debt Service Funds**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Township had the following debt service fund:

General Debt Retirement Fund - This fund made principal and interest payments for the Townships' mower and tractor lease-purchase agreements.

**4. Capital Project Funds**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Township had the following significant capital project funds:

Public Works Fund - The Township received a grant from the State of Ohio to repair and resurface Township roads.

**5. Permanent Funds**

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

Kellogg Endowment Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are offset by expenses in the fund.

**D. 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.

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

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

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

**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 2015 and 2014 budgetary activity appears in Note 3.

**E. 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**

Board of Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Board of 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 the Board of Trustees or a Township official delegated that authority by resolution, or by State Statute.

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

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

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

**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.

**F. 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. EQUITY IN POOLED DEPOSITS**

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

	2015	2014
Demand deposit	\$514,654	\$435,620
Other time deposit	768	787
Total deposits	\$515,422	\$436,407

**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 years ending December 31, 2015 and 2014 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$207,963	\$202,470	(\$5,493)
Special Revenue	280,464	266,453	(14,011)
Capital Projects	36,407	36,407	0
Total	\$524,834	\$505,330	(\$19,504)

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$165,949	\$133,109	\$32,840
Special Revenue	329,959	256,799	73,160
Capital Projects	36,407	36,407	0
Permanent	789	0	789
Total	<u>\$533,104</u>	<u>\$426,315</u>	<u>\$106,789</u>

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$185,224	\$160,440	(\$24,784)
Special Revenue	284,737	285,031	294
Capital Projects	67,562	67,562	0
Fiduciary	1,500	0	(1,500)
Total	<u>\$539,023</u>	<u>\$513,033</u>	<u>(\$25,990)</u>

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$230,563	\$151,302	\$79,261
Special Revenue	276,423	238,294	38,129
Debt Service	372	0	372
Capital Projects	70,362	68,837	1,525
Permanent	788	0	788
Total	<u>\$578,508</u>	<u>\$458,433</u>	<u>\$120,075</u>

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board of 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.

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

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

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

**5. DEFINED BENEFIT PENSION PLAN**

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. 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 2015 and 2014, 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, 2015.

**6. POSTEMPLOYMENT BENEFITS**

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the traditional pension and the combined plans. OPERS contributes 2 percent of the employer contribution to fund these benefits.

**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.

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.



**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

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

**7. RISK MANAGEMENT (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, 2015 and 2014:

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

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 members and 957 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 \$5,000.

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>2015</u>	<u>2014</u>
\$9,947	\$9,224

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. CONTINGENT LIABILITIES**

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

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

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

**9. SUBSEQUENT EVENTS**

The Township is a plaintiff in a lawsuit involving deficient road work dating back to 2012. On October 13, 2016 the Board of Trustees agreed to settle this lawsuit for \$310,000.



# Dave Yost • Auditor of State

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

Henrietta Township  
Lorain County  
12050 Vermilion Road  
Amherst, Ohio 44001

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 Henrietta Township, Lorain County, Ohio (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 November 17, 2016 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 qualified our opinion due to the lack of sufficient appropriate audit evidence supporting the recording of the Kellogg Trust Fund as a Permanent Fund and its fund balance classifications.

### ***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 opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2015-001, 2015-002 and 2015-003 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, 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2015-002.

***Township's Response to Findings***

The Township's responses to the findings identified in our audit are described in the accompanying schedule of 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.



**Dave Yost**  
Auditor of State  
Columbus, Ohio

November 17, 2016

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2015-001**

**Material Weakness - Rental Contract Agreement Including Modifications**

The Township owned a parcel of land which included a building located at 11970 Vermillion Road in Oberlin, Ohio. The Township rented the building to a business which provided a day care service. In August 2015, the land and building was sold to the owner of the day care business.

In 2014, the Township discussed modifying the rental contract agreement because the day care center was considerably behind in rental payments because of reduced attendance due to bad weather conditions. The minutes indicate the Board was working with its statutory legal counsel to explore a new rental contract which would include the day care center paying the utilities in return for a lower rent rate. The Fiscal Officer stated the agreement was modified to lower the rent to \$200 per month with the day care center paying the utilities. Previously, the day care center paid \$1,600 per month with the Township responsible for the utilities.

However, the Township is unable to provide an original or modified rental contract agreement. The Fiscal Officer stated he contacted its statutory legal counsel to see if they had a copy of the modified rental contract agreement and was told they do not have a copy. As previously mentioned, the Township sold this property in August 2015. The Township could not provide evidence supporting the completeness of rental payments in 2014 or 2015 since they did not maintain records documenting amounts due versus what was paid (i.e. rental payment history records, aging schedule). The Township could not provide support for unpaid amounts that were forgiven by the Board, if any.

Rent payments received in 2015 were confirmed with the day care center. However, the day care center was unable to confirm payments made to the Township in 2014, due to insufficient records on its part.

Deficient record keeping by former and current management resulted in the Townships inability to provide these agreements for audit purposes.

Failure to formally establish and maintain rental contract agreements and basic rental payment history documentation diminishes control, accountability and transparency over these rental transactions which could result in errors and irregularities including theft to occur that would not be detected in a timely manner.

Although the Township sold this property in 2015, we recommend the Township formally establish written contracts and modifications of all rental or lease agreements in the future. The Township should establish and implement procedures to ensure these agreements are maintained on file at the Township. Documentation should be utilized to support the accuracy and completeness of rental payments. The Township should perform a periodic inventory of all Township records to ensure they are secured and maintained in accordance with public records policy. Missing records should be investigated and resolved in a timely manner.

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015 AND 2014  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2015-001 – (Continued)**

**Material Weakness - Rental Contract Agreement Including Modifications – (Continued)**

**Officials' Response**

The Township currently maintains all contracts in the Fiscal Officer's office. This situation was a totally unusual occurrence which happened prior to the current Fiscal Officers term. It is highly unlikely that Henrietta Township will in the future be involved as a landlord requiring the collection of rent. We do strive to follow our current open records policy. While the Township understands that the actual contract and proper collection of rent needs to be documented as stated during the audit, it is our belief that during the 2014 and 2015 time period all monies owed the Township were collected.

**FINDING NUMBER 2015-002**

**Noncompliance and Material Weakness - Township Hall Rental Calendar**

**Ohio Rev. Code §149.351(A)** states all records are the property of the public office concerned and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under sections 149.38 to 149.42 of the Revised Code or under the records programs established by the boards of trustees of state-supported institutions of higher education under section 149.33 of the Revised Code.

The Trustee responsible for township hall rentals utilizes a calendar to document the dates the township hall was rented and by whom. The calendar was not retained for calendar year 2014 or 2015. The Trustee stated he was not aware that he needed to keep these calendars.

Other than this calendar and a UAN receipt there is no evidence the Township and renter have mutually agreed to rent the Township hall on a specific date for a specific amount.

Failure to retain or maintain such records increases the likelihood that errors or irregularities, including theft could occur and not be detected by management in a timely manner.

We recommend management establish procedures to ensure all Township records are retained and not disposed of, in whole or in part, in any manner which is inconsistent with law. Further, to increase control and accountability over township hall rental receipts we suggest the Township utilize pre-numbered duplicate contracts that documents, at minimum, the township hall rental date, rental amount, renter, and payment method. This should be signed by the renter and designated Trustee. A copy of such contract should be provided to the Fiscal Officer with each payment received.

**Officials' Response**

The Township will be designing a multi-page rental agreement to be used whenever the town hall is rented. This should be in place by January 2017 pending review by the Townships' legal counsel.

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015 AND 2014  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2015-003**

**Material Weakness – Permanent Fund Original Documentation**

Governmental Accounting Standards Board Statement No. 54 defines Permanent Funds as funds to be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizenry. The fund balance attributed to the corpus should be classified as nonspendable and any earnings on the corpus should be classified as restricted.

According to the Township, the Kellogg Trust Fund was established in the 1920's for the purpose of providing maintenance and general upkeep of the Township's cemetery. The Township has classified this fund as a permanent fund; however no records exist to support the original donation and constraints placed upon it by the donor.

Without the original trust agreement it is not possible to determine whether the Kellogg Trust Fund should be presented as a Permanent Fund (benefit to the Township) or Private Purpose Trust Fund (benefit to other organizations, governments, or individuals). In addition, the lack of a trust agreement may be an indication these funds can be completely spent which would result in the Kellogg Trust Fund being classified as a Special Revenue Fund. It also is not possible to determine the appropriate fund balance classifications for the Kellogg Trust Fund because the original corpus amount is not known. As a result, it could not be determined if the financial statements were accurately stated.

Also, in fiscal year 2015, the Fiscal Officer expended \$789 (the entire balance of the Permanent Fund) on electrical work for a Township sign. This expenditure is not consistent with the purpose of this Permanent Fund. The Fiscal Officer corrected the financial statements and accounting records to adjust the \$789 back to the Permanent Fund.

We recommend the Township research the Kellogg Trust Fund and secure documentation to determine the original donation and the constraints imposed to appropriately make disbursements from the permanent fund and to classify the fund balance. If research has been exhausted and no original documentation located, the Township should then consult with its statutory legal counsel on how to resolve this matter. Evidence of this research and consultation with its statutory legal counsel should be retained on file.

**Officials' Response**

The Township will attempt to secure the Kellogg Trust Fund documentation, however keep in mind this process has been attempted a number of years before by the prior Fiscal Officer. Also, the longest serving Trustee Joe R. Knoble has stated that during his over 25 years of service to the Township he has never seen any documentation regarding the Trust. If nothing can be located we will review the situation with the Lorain County Prosecutor's office for a legal solution if there is one.

**HENRIETTA TOWNSHIP  
LORAIN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2015 AND 2014**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2013-001	Material Weakness - Recording "On-Behalf-Of" Grants: In 2013 the Township did not record Ohio Public Works Commission expended \$51,920 directly to contractors on behalf of the Township on its financial statements.	Corrective Action Taken and Finding is Fully Corrected	None
2013-002	Material Weakness - Financial Reporting: In 2012 and 2013 the Township improperly classified certain fund balances, receipts and disbursements in its accounting records and financial statements	Corrective Action Taken and Finding is Fully Corrected	None





# Dave Yost • Auditor of State

**HENRIETTA 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  
DECEMBER 1, 2016**