



Dave Yost • Auditor of State

LYME TOWNSHIP
HURON COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Lyme Township
Huron County
5409 Edmonds Road
Bellevue, Ohio 44811

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 Lyme Township, Huron County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015.

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 opinions.

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2016 and 2015, and the respective 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 cash balances, receipts and disbursements by fund type, and related notes of Lyme Township, Huron County, Ohio as of December 31, 2016 and 2015, 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 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2018, 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.



Dave Yost
Auditor of State

Columbus, Ohio

January 17, 2018

Lyme Township
Huron County
Combined Statement of Receipts, Disbursements,
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016

| | General | Special Revenue | Totals (Memorandum Only) |
|--|------------------|----------------------------|---|
| Cash Receipts | | | |
| Property and Other Local Taxes | \$93,708 | \$73,223 | \$166,931 |
| Licenses, Permits, and Fees | 5,199 | | 5,199 |
| Intergovernmental | 27,183 | 108,785 | 135,968 |
| Earnings on Investments | 1,147 | 597 | 1,744 |
| Miscellaneous | 1,377 | 46 | 1,423 |
| <i>Total Cash Receipts</i> | <u>128,614</u> | <u>182,651</u> | <u>311,265</u> |
| Cash Disbursements | | | |
| Current: | | | |
| General Government | 87,805 | 1,556 | 89,361 |
| Public Safety | 33,000 | | 33,000 |
| Public Works | 16,531 | 74,750 | 91,281 |
| Health | 9,714 | | 9,714 |
| Capital Outlay | | 8,773 | 8,773 |
| Debt Service: | | | |
| Principal Retirement | | 40,749 | 40,749 |
| Interest and Fiscal Charges | | 3,821 | 3,821 |
| <i>Total Cash Disbursements</i> | <u>147,050</u> | <u>129,649</u> | <u>276,699</u> |
| <i>Net Changes in Fund Cash Balances</i> | (18,436) | 53,002 | 34,566 |
| <i>Fund Cash Balances, January 1</i> | <u>138,530</u> | <u>412,294</u> | <u>550,824</u> |
| Fund Cash Balances, December 31 | | | |
| Restricted | | 465,296 | 465,296 |
| Assigned | 117,931 | | 117,931 |
| Unassigned | 2,163 | | 2,163 |
| <i>Fund Cash Balances, December 31</i> | <u>\$120,094</u> | <u>\$465,296</u> | <u>\$585,390</u> |

See accompanying notes to the financial statements

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Lyme Township, Huron County, Ohio (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides general government services, road and bridge maintenance, and cemetery maintenance. The Township contracts with the City of Bellevue to provide fire services and North Central EMS, Inc. to provide ambulance services.

Public Entity Risk Pool

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), which is a public entity risk pool that provides property and casualty coverage for its members. Note 6 to the financial statements provides additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Township’s financial statements consist of a combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. 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.

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

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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 Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(D) permit.

Budgetary Process

The Ohio Revised Code requires each fund be budgeted annually.

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.

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.

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 2016 budgetary activity appears in Note 3.

Capital Assets

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

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:

Nonspendable The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Committed The Board of 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.

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.

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.

Note 3 – Budgetary Activity

Budgetary activity for the year ended December 31, 2016 follows:

| 2016 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$120,199 | \$128,614 | \$8,415 |
| Special Revenue | 177,596 | 182,651 | 5,055 |
| Total | \$297,795 | \$311,265 | \$13,470 |

| 2016 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$259,007 | \$147,050 | \$111,957 |
| Special Revenue | 589,612 | 129,649 | 459,963 |
| Total | \$848,619 | \$276,699 | \$571,920 |

Note 4 – 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:

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016

| | |
|-----------------|------------------|
| | 2016 |
| Demand deposits | <u>\$585,390</u> |

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Township.

Note 5 – Property Taxes

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.

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

Note 6 - Risk Management

Risk Pool Membership

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, 2016, 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.

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016

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, 2016.

| | 2016 |
|--------------|--------------|
| Assets | \$38,473,283 |
| Liabilities | 8,244,140 |
| Net Position | \$30,229,143 |

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$3,000.

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.

| 2016 Contributions to OTARMA |
|-------------------------------------|
| \$6,723 |

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.

Note 7 – Retirement Systems

Ohio Public Employees Retirement System

Some of 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 plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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, 2016.

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Social Security

Other Township employees and officials contributed to social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

Note 8 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, 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. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|---------------------------------------|-------------------------|----------------------|
| Ohio Public Works (OPWC) Loan - CT21P | \$313,193 | 0% |
| First National Bank Promissory Note | <u>95,280</u> | 3% |
| Total | <u><u>\$408,473</u></u> | |

The Ohio Public Works Commission (OPWC) Loan relates to the Phase II reconstruction project of Sandhill Road and was approved in the amount of \$338,588. The loan will be repaid in semiannual installments of \$8,465 over 20 years, commencing on July 1, 2015 and ending January 1, 2035.

The First National Bank Promissory Note relates to the purchase of a John Deere Tractor. The loan will be repaid in annual installments of \$23,820, plus interest, over a period of 5 years, commencing February 1, 2016 and ending February 1, 2020. There is no provision in the Ohio Revised Code for a Township to enter into this type of debt.

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

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2016

| Year ending December 31: | OPWC Loan | First National Bank Promissory Note |
|--------------------------|-----------|---|
| 2017 | \$16,930 | \$26,726 |
| 2018 | 16,930 | 25,994 |
| 2019 | 16,930 | 25,269 |
| 2020 | 16,930 | 24,545 |
| 2021 | 16,930 | |
| 2022-2026 | 84,650 | |
| 2027-2031 | 84,650 | |
| 2032-2035 | 59,243 | |
| Total | \$313,193 | \$102,534 |

Note 10 – Related Party Transactions

The Fiscal Officer is also the Senior Vice-President for First National Bank. The Township utilizes First National Bank as its depository and has also financed the purchase of a tractor through First National Bank.

Lyme Township
Huron County
Combined Statement of Receipts, Disbursements,
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2015

| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | <u>Totals (Memorandum Only)</u> |
|---|------------------|----------------------------|-----------------------------|---|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$85,199 | \$66,023 | | \$151,222 |
| Licenses, Permits, and Fees | 7,968 | | | 7,968 |
| Intergovernmental | 32,283 | 114,976 | \$25,247 | 172,506 |
| Earnings on Investments | 1,120 | 504 | | 1,624 |
| Miscellaneous | 920 | | | 920 |
| <i>Total Cash Receipts</i> | <u>127,490</u> | <u>181,503</u> | <u>25,247</u> | <u>334,240</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| General Government | 86,839 | 1,465 | | 88,304 |
| Public Safety | 33,000 | | | 33,000 |
| Public Works | 24,441 | 83,994 | | 108,435 |
| Health | 9,243 | | | 9,243 |
| Capital Outlay | 149 | 119,100 | 25,247 | 144,496 |
| Debt Service: | | | | |
| Principal Retirement | | 8,465 | | 8,465 |
| <i>Total Cash Disbursements</i> | <u>153,672</u> | <u>213,024</u> | <u>\$25,247</u> | <u>391,943</u> |
| <i>Excess of Disbursements Over Receipts</i> | <u>(26,182)</u> | <u>(31,521)</u> | | <u>(57,703)</u> |
| Other Financing Receipts (Disbursements) | | | | |
| Other Debt Proceeds | | 119,100 | | 119,100 |
| Other Financing Uses | (8,465) | | | (8,465) |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>(8,465)</u> | <u>119,100</u> | | <u>110,635</u> |
| <i>Net Changes in Fund Cash Balances</i> | <u>(34,647)</u> | <u>87,579</u> | | <u>52,932</u> |
| <i>Fund Cash Balances, January 1</i> | <u>173,177</u> | <u>324,715</u> | | <u>497,892</u> |
| Fund Cash Balances, December 31 | | | | |
| Restricted | | 412,294 | | 412,294 |
| Assigned | 138,530 | | | 138,530 |
| <i>Fund Cash Balances, December 31</i> | <u>\$138,530</u> | <u>\$412,294</u> | | <u>\$550,824</u> |

See accompanying notes to the financial statements

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Lyme Township, Huron County, Ohio (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides general government services, road and bridge maintenance, and cemetery maintenance. The Township contracts with the City of Bellevue to provide fire services and North Central EMS, Inc. to provide ambulance services.

Public Entity Risk Pool

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), which is a public entity risk pool that provides property and casualty coverage for its members. Note 6 to the financial statements provides additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Township’s financial statements consist of a combined statement of receipts, disbursements, and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. 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.

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

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2015

Capital Project Funds These funds account for and reports financial resources that are restricted 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 Fund:

Public Works Commission Project Fund – The Township received a grant from the state for capital improvements. The proceeds are restricted for capital improvement.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Rev. Code Section 117.38 and Ohio Admin. Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

Budgetary Process

The Ohio Revised Code requires each fund be budgeted annually.

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.

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.

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 budgetary activity appears in Note 3.

Capital Assets

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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:

Nonspendable The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

Committed The Board of 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.

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.

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.

Note 3 – Budgetary Activity

Budgetary activity for the year ended December 31, 2015 follows:

| 2015 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$106,609 | \$127,490 | \$20,881 |
| Special Revenue | 288,851 | 300,603 | 11,752 |
| Capital Projects | 300,000 | 25,247 | (274,753) |
| Total | \$695,460 | \$453,340 | (\$242,120) |

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2015

| 2015 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$279,786 | \$162,137 | \$117,649 |
| Special Revenue | 613,566 | 213,024 | 400,542 |
| Capital Projects | 30,000 | 25,247 | 4,753 |
| Total | \$923,352 | \$400,408 | \$522,944 |

Note 4 – 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 |
| Demand deposits | \$550,824 |

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Township.

Note 5 – Property Taxes

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.

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

Note 6 - Risk Management

Risk Pool Membership

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

Lyme Township
Huron County
Notes to the Financial Statements
For the Year Ended December 31, 2015

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.

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.

| | <u>2015</u> |
|--------------|--------------|
| Assets | \$37,313,311 |
| Liabilities | 8,418,518 |
| Net Position | \$28,894,793 |

At December 31, 2015 the liabilities above include approximately \$7.8 million of estimated incurred claims payable. The assets above also include approximately \$7.7 million of unpaid claims to be billed to approximately 989 member governments in the future, as of December 31, 2015. 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 \$3,000.

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>2015 Contributions to OTARMA</u> \$6,533 |
|---|

Lyme Township
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Notes to the Financial Statements
For the Year Ended December 31, 2015

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.

Note 7 – Retirement Systems

Ohio Public Employees Retirement System

Some of 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 plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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.

Social Security

Other Township employees and officials contributed to social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2015.

Note 8 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, 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. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 9 – Debt

Debt outstanding at December 31, 2015 was as follows:

| | Principal | Interest Rate |
|---------------------------------------|-----------|---------------|
| Ohio Public Works (OPWC) Loan - CT21P | \$330,123 | 0% |
| First National Bank Promissory Note | 119,100 | 3% |
| Total | \$449,223 | |

The Ohio Public Works Commission (OPWC) Loan relates to the Phase II reconstruction project of Sandhill Road and was approved in the amount of \$338,588. The loan will be repaid in semiannual installments of \$8,465 over 20 years, commencing on July 1, 2015 and ending January 1, 2035.

Lyme Township
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Notes to the Financial Statements
For the Year Ended December 31, 2015

The First National Bank Promissory Note relates to the purchase of a John Deere Tractor. The loan will be repaid in annual installments of \$23,820, plus interest, over a period of 5 years, commencing February 1, 2016 and ending February 1, 2020. This note was obtained contrary to the requirements of the Ohio Revised Code, resulting in material noncompliance with Ohio law.

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

| Year ending December 31: | OPWC Loan | First National Bank Promissory Note |
|--------------------------|-----------|---|
| 2016 | \$16,930 | \$27,641 |
| 2017 | 16,930 | 26,726 |
| 2018 | 16,930 | 25,994 |
| 2019 | 16,930 | 25,269 |
| 2020 | 16,930 | 24,545 |
| 2021-2025 | 84,650 | |
| 2026-2030 | 84,650 | |
| 2031-2035 | 76,173 | |
| Total | \$330,123 | \$130,175 |

Note 10 – Related Party Transactions

The Fiscal Officer is also the Senior Vice-President for First National Bank. The Township utilizes First National Bank as its depository and has also financed the purchase of a tractor through First National Bank.



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*

Lyme Township
Huron County, Ohio
5409 Edmonds Road
Bellevue, Ohio 44811

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 Lyme Township, Huron County, Ohio, (the Township) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated January 17, 2018 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.

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 a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider findings 2016-001 and 2016-003 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2016-002 and 2016-003.

Township's Responses 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

January 17, 2018

LYME TOWNSHIP
HURON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015

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

FINDING NUMBER 2016-001

Material Weakness – Financial Reporting

Sound financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements and notes to the financial statements is complete and accurate.

We identified the following error requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2016:

- General Fund unassigned fund balance in the amount of \$117,931 was reclassified to assigned in accordance with the provisions of GASB 54.

We identified the following errors requiring adjustment to the financial statements and/or notes to the financial statements for the year ended December 31, 2015:

- General Fund unassigned fund balance in the amount of \$138,530 was reclassified to assigned in accordance with the provisions of GASB 54; and
- Special Revenue Fund Type principal retirement disbursements in the amount of \$8,465 were incorrectly classified as public works disbursements.

Additional insignificant errors were also noted for the years ended December 31, 2016 and 2015. The accompanying financial statements have been adjusted to reflect these changes. These errors were not identified and corrected prior to the Township preparing its financial statements and notes to the financial statements due to deficiencies in the Township's internal controls over financial statement monitoring.

To help ensure the Township's financial statements and notes to the statements are complete and - accurate, the Township should adopt policies and procedures, including a final review of the statements and notes to the financial statements by the Fiscal Officer, to identify and correct errors and omissions. The Fiscal Officer can refer to the Ohio Township Handbook at the following web site address for guidance on the recording of transactions:

<http://www.ohioauditor.gov/publications/FINALTownshipHandbook%203-22-17.pdf>.

The Fiscal Officer can also refer to Auditor of State Bulletin 2011-004 at the following web site address for information on Governmental Accounting Standards Board Statement No. 54:

<http://www.ohioauditor.gov/publications/bulletins/2011/2011-004.pdf>.

Officials' Response:

Special effort will be made ensure annual statement filing will be appropriate going forward.

FINDING NUMBER 2016-002

Noncompliance

Ohio Rev. Code Chapters 133 and 505 provide various methods for Townships to incur debt. These include:

- Ohio Rev. Code § 133.22 which allows a subdivision to issue anticipatory securities;
- Ohio Rev. Code § 133.10 which allows a subdivision to issue anticipation securities in anticipation of current property tax revenues;
- Ohio Rev. Code § 133.12 which allows a subdivision to issue general obligation securities to meet emergencies;
- Ohio Rev. Code § 133.15 which allows a subdivision to issue securities to pay for permanent improvements;
- Ohio Rev. Code § 133.151 which allows a township to issue self-supporting securities to pay for the costs of any permanent improvements;
- Ohio Rev. Code § 133.14 which allows a subdivision to issue securities for the purpose of providing funds with which to pay one or more final judgments rendered against the subdivision;
- Ohio Rev. Code § 133.18 which allows the taxing authority of a subdivision by legislation to submit to the electors of the subdivision the question of issuing any general obligation bonds, for one purpose, that the subdivision has power or authority to issue; and
- Ohio Rev. Code § 505.262 which allows the board of township trustees to issue securities for the construction of buildings.

In 2015, the Township signed a promissory note with a local bank in the amount of \$119,100 to finance the purchase of a new tractor. This type of debt does not meet the criteria for any of the debt allowed in Ohio Rev. Code Chapters 133 or 505. The Fiscal Officer was not aware of this requirement. The failure to comply with the Ohio Revised Code could result in improper use of Township money.

We recommend the Township contact its legal counsel before incurring future debt and limit debt issuances to the type(s) authorized under Ohio law.

Officials' Response:

The Township has utilized promissory notes in the past with no criticism from the AOS. Given the amount of the debt incurred, it was much more cost effective to procure a loan rather than go thru the costly process of issuing public debt. As with past experience, the bank was willing to lend the funds on an unsecured basis with an attractive interest rate that would mitigate the intense legal fees attributed to public debt issuance. In the future, should it be necessary to arrange for additional funding, the township will work with our legal counsel – the Huron Co. Prosecutor – to ensure the most cost effective source of funding in an effort to comply with the stated ORC section.

FINDING NUMBER 2016-003

Noncompliance Citation and Material Weakness

Ohio Rev. Code § 5705.10(E) provides, in part, that all proceeds from the sale of public obligations as defined in section 133.01 of the Revised Code, except premium and accrued interest, shall be paid into a special fund for the purpose of such issue.

Ohio Rev. Code § 133.01(GG) defines public obligations as:

- 1) Securities;
- 2) Obligations of a public issuer to make payments under installment sale, lease, lease purchase, or similar agreements, which obligations may bear interest or interest equivalent.

Ohio Rev. Code § 133.01(KK) defines "securities," in pertinent part, as bonds, notes, certificates of indebtedness, commercial paper, and other instruments in writing, including, unless the context does not admit, anticipatory securities, issued by an issuer to evidence its obligation to repay money borrowed, or to pay interest, by, or to pay at any future time other money obligations of, the issuer of the securities.

The Township entered into a loan in the amount of \$119,100 for road reconstruction, maintenance, and repair equipment. However, the proceeds were incorrectly placed into the general fund rather than a separate special fund.

This error was the result of inadequate policies and procedures over posting debt transactions. The accompanying financial statements and note disclosures were adjusted to reflect the debt proceeds and corresponding capital outlay disbursement in the Special Revenue Fund Type. We recommend the Township properly record debt proceeds.

Officials' Response:

Due to the fact this was a one-time entry in and a one-time entry out, the opening of a Special Fund was not entertained at the time of the transaction. In the future, should such action be necessitated, special fund(s) will be opened to handle the transactions regardless of the number of transactions the process entails.

LYME TOWNSHIP TRUSTEES

Lyme Township, Huron County, Ohio

Fiscal Officer
Deb Hawkins
5409 Edmonds Road
Bellevue, OH 44811

Zoning Inspector
George Keller
5516 Edmonds Road
Bellevue, OH 44811

Trustees
Roger M. Hunker, Chr.
Michael C. Nottke
David E. Lepley

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

DECEMBER 31, 2016 AND 2015

| Finding Number | Finding Summary | Status | Additional Information |
|-----------------------|--|--|--|
| 2014-001 | Material Weakness for errors in financial reporting. | Not corrected and reissued as Finding 2016-001 in this report. | Matters reported in Finding 2014-001 were corrected during the current audit. However, additional matters not previously communicated in Finding 2014-001 were identified. Also see Officials' Response to Finding 2016-001. |



Dave Yost • Auditor of State

LYME TOWNSHIP

HURON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 6, 2018