



**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004**



**Mary Taylor, CPA**  
Auditor of State



**PENFIELD TOWNSHIP  
LORAIN COUNTY**

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Mary Taylor, CPA  
Auditor of State

Penfield Township  
Lorain County  
42760 Peck-Wadsworth Road  
Wellington, Ohio 44090

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

February 27, 2007

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Penfield Township  
Lorain County  
42760 Peck-Wadsworth Road  
Wellington, Ohio 44090

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Penfield Township, Lorain County, Ohio, (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. For the year ending December 31, 2004, we audited the Township's regulatory accounting basis financial statements. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

As described more fully in Note 2, the Township has prepared the financial statements for December 31, 2004 using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements for the year ended December 31, 2004. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Penfield Township, Lorain County, Ohio, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the regulatory accounting basis Note 2 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

For the year ended December 31, 2005, the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements for the year ended December 31, 2005 referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Penfield Township, Lorain County, Ohio, as of December 31, 2005, and the respective changes in cash basis financial position and the respective budgetary comparisons for the General Fund, Gasoline Tax Fund, Cemetery Fund, and Recreation Board Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis for the year ended December 31, 2005, is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

February 27, 2007

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**PENFIELD TOWNSHIP  
LORAIN COUNTY**

Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

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This discussion and analysis of the Penfield Township's financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2005, within the limitations of the Township's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Township's financial performance.

**Highlights**

Key highlights for 2005 are as follows:

- Net assets of governmental activities increased \$14,110, or 12% percent from the prior year. This increase is primarily due to increased property tax and intergovernmental revenues in 2005, combined with stable expenditures between 2004 and 2005.
- Property tax revenue increased by 2% between fiscal year 2004 and fiscal year 2005. Intergovernmental revenue increased by 11% between the two years.
- The Township's primary source of revenue was property taxes. During fiscal year 2005, the Township received \$147,729 in property taxes. This represents 65% of general fund revenue and 44% of total governmental revenue.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Township's modified cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the Township as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Township as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Township has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Township's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

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**Reporting the Township as a Whole**

The statement of net assets and the statement of activities reflect how the Township did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Township at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Township's general receipts.

These statements report the Township's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Township's financial health. Over time, increases or decreases in the Township's cash position is one indicator of whether the Township's financial health is improving or deteriorating. When evaluating the Township's financial condition, you should also consider other non-financial factors as well, such as the Township's property tax base, the condition of the Township's capital assets and infrastructure, the extent of the Township's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, the Township reports all services provided as Governmental Activities. State and Federal grants and property taxes finance most of these activities.

**Reporting the Township's Most Significant Funds**

Fund financial statements provide detailed information about the Township's major funds – not the Township as a whole. The Township establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Township are presented in one category: governmental.

**Governmental Funds** - All of the Township's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Township's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Township's programs. The Township's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Township's major governmental funds in 2005 are General, Gasoline Tax, Recreation Board, and Cemetery Funds. The programs reported in governmental funds are the same as those reported in the governmental activities section of the entity-wide statements.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

**The Township as a Whole**

Table 1 provides a summary of the Township's net assets for 2005 compared to 2004 on a cash basis:

(Table 1)

**Net Assets**

	Governmental Activities	
	2005	2004
<b>Assets</b>		
Cash and Cash Equivalents	\$132,659	\$118,549
Total Assets	\$132,659	\$118,549
<b>Net Assets</b>		
Restricted for:		
Other Purposes	\$75,170	\$61,495
Unrestricted	57,489	57,054
Total Net Assets	\$132,659	\$118,549

As mentioned previously, net assets of Township activities increased by \$14,110, or 12% percent from the prior year. This increase in cash balances is primarily due to increased property tax and intergovernmental revenues in 2005, combined with stable expenditures between 2004 and 2005.

Table 2 reflects the changes in net assets on a modified cash basis in 2005. Since the Township did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

(Table 2)

**Changes in Net Assets**

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$21,052
Operating Grants and Contributions	79,680
Grants and Entitlements	5,000
<b>Total Program Receipts</b>	<b>105,732</b>
General Receipts:	
Property Taxes	147,729
Grants and Entitlements not Restricted	59,054
Earnings on Investments	3,122
Miscellaneous	26,931
<b>Total General Receipts</b>	<b>236,836</b>
<b>Total Receipts</b>	<b>342,568</b>
Disbursements:	
General Government	121,808
Public Safety	9,031
Public Works	61,988
Health	11,053
Conservation-Recreation	14,717
Debt Service	92,201
Capital Outlay	15,728
Miscellaneous	1,932
<b>Total Disbursements</b>	<b>328,458</b>
Increase in Net Assets	14,110
Net Assets, Beginning of Year	118,549
Net Assets, End of Year	<b>\$132,659</b>

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

Program receipts represent 30% of total receipts and are comprised mostly of operating grants and contributions received for road maintenance and repair projects.

General receipts represent 70% of the Township's total receipts, and of the general receipts amount, 62% are property and other local tax receipts. Unrestricted grants and entitlements make up the balance of the Township's general receipts (25%). Other miscellaneous receipts, such as those for hall rentals and earnings on investments, are insignificant and somewhat unpredictable revenue sources.

Disbursements for general government represent the overhead costs of running the Township (salaries, benefits, utilities, etc). Disbursements for public works represent costs for road maintenance and repair. Debt service payments represent both interest and principal on the loan for the new Town Hall.

**Governmental Activities**

If you look at the Statement of Activities on page 14 you will see that the first column lists the major services provided by the Township. The next column identifies the costs of providing these services. The normal major program disbursements for governmental activities are for general government, public works, and debt service. These categories of expenditures account for 37%, 19%, and 28% of total governmental expenses, respectively. The next three columns of the Statement, entitled "Program Cash Receipts," identify amounts paid by people who are directly charged for services and grants received by the Township that must be used to provide a specific service. The "Net Receipts (Disbursements)" column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

**Governmental Activities**

	Total Cost of Services 2005	Net Cost of Services 2005
General Government	\$121,808	(\$104,256)
Public Safety	9,031	(9,031)
Public Works	61,988	22,692
Health	11,053	(7,553)
Conservation-Recreation	14,717	(14,717)
Debt Service	92,201	(92,201)
Capital Outlay	15,728	(15,728)
Miscellaneous	1,932	(1,932)
<b>Total Expenses</b>	<b>\$328,458</b>	<b>(\$222,726)</b>

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

Management's Discussion and Analysis  
For the Year Ended December 31, 2005  
Unaudited

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The dependence upon property taxes is apparent as over 45% of governmental activities are supported through these general receipts.

**The Township's Funds**

Total governmental funds had receipts and other financing sources of \$361,310 and disbursements and other financing uses of \$347,200. The greatest change within governmental funds occurred within the Cemetery Fund. The fund balance of the Cemetery Fund increased \$11,156 mainly due to a one-time receipt of \$10,000 received in 2005 that was willed to the Township by a deceased resident's estate.

**General Fund Budgeting Highlights**

The Township's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, the Township amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were \$245,327 while actual receipts and other financing sources were \$239,827. Final disbursements were budgeted at \$255,053 while actual disbursements and other financing uses were \$239,505.

**Capital Assets and Debt Administration**

**Capital Assets**

The Township does not currently keep track of its capital assets and infrastructure.

**Debt**

At December 31, 2005, the Township's outstanding debt included \$299,543 for principal and interest for a Community Center loan. For further information regarding the Township's debt, refer to Note 10 to the basic financial statements.

**Contacting the Township's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to reflect the Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Eleanor Gndt, Fiscal Officer, Penfield Township, 42760 Peck-Wadsworth Road, Wellington, Ohio 44090.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS  
DECEMBER 31, 2005**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$132,659
<i>Total Assets</i>	<u><u>132,659</u></u>
<b>Net Assets</b>	
Restricted for:	
Other Purposes	75,170
Unrestricted	57,489
<i>Total Net Assets</i>	<u><u>\$132,659</u></u>

See accompanying notes to the basic financial statements.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Cash Receipts			Net Receipts (Disbursements) and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
General Government	\$121,808	\$17,552	\$0	\$0	(\$104,256)
Public Safety	9,031	0	0	0	(9,031)
Public Works	61,988	0	79,680	5,000	22,692
Health	11,053	3,500	0	0	(7,553)
Conservation-Recreation	14,717	0	0	0	(14,717)
Debt Service:					
Redemption of Principal	79,746	0	0	0	(79,746)
Interest and Fiscal Charges	12,455	0	0	0	(12,455)
Capital Outlay	15,728	0	0	0	(15,728)
Miscellaneous	1,932	0	0	0	(1,932)
<i>Total Governmental Activities</i>	<u>\$328,458</u>	<u>\$21,052</u>	<u>\$79,680</u>	<u>\$5,000</u>	<u>(\$222,726)</u>
<b>General Receipts</b>					
Property Taxes					147,729
Grants and Entitlements not Restricted to Specific Programs					59,054
Earnings on Investments					3,122
Miscellaneous					26,931
<i>Total General Receipts</i>					<u>236,836</u>
Change in Net Assets					14,110
<i>Net Assets Beginning of Year</i>					<u>118,549</u>
<i>Net Assets End of Year</i>					<u>\$132,659</u>

See accompanying notes to the basic financial statements.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**STATEMENT OF CASH ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005**

	General	Gasoline Tax	Cemetery	Recreation Board	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Equity in Pooled Cash and Cash Equivalents	\$57,489	\$36,585	\$13,719	\$21,092	\$3,774	\$132,659
<i>Total Assets</i>	<u>57,489</u>	<u>36,585</u>	<u>13,719</u>	<u>21,092</u>	<u>3,774</u>	<u>132,659</u>
<b>Fund Balances</b>						
Reserved for Encumbrances	569	411	47	0	84	1,111
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	56,920	0	0	0	0	56,920
Special Revenue Funds	0	36,174	13,672	21,092	3,690	74,628
<i>Total Fund Balances</i>	<u>\$57,489</u>	<u>\$36,585</u>	<u>\$13,719</u>	<u>\$21,092</u>	<u>\$3,774</u>	<u>\$132,659</u>

See accompanying notes to the basic financial statements.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BASIS FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Gasoline Tax	Cemetery	Recreation Board	Other Governmental Funds	Total
<b>Receipts</b>						
Property and Other Local Taxes	\$147,729	\$0	\$0	\$0	\$0	\$147,729
Intergovernmental	59,054	73,488	0	0	17,865	150,407
Licenses, Permits, and Fees	2,650	0	3,500	0	0	6,150
Earnings on Investments	2,559	563	0	0	0	3,122
Miscellaneous	15,606	0	11,200	125	0	26,931
<b>Total Receipts</b>	<b>227,598</b>	<b>74,051</b>	<b>14,700</b>	<b>125</b>	<b>17,865</b>	<b>334,339</b>
<b>Disbursements</b>						
Current:						
General Government	97,578	0	0	0	24,230	121,808
Public Safety	0	9,031	0	0	0	9,031
Public Works	2,213	55,378	0	0	4,397	61,988
Health	6,009	0	5,044	0	0	11,053
Conservation-Recreation	14,717	0	0	0	0	14,717
Debt Service:						
Redemption of Principal	79,746	0	0	0	0	79,746
Interest and Fiscal Charges	12,455	0	0	0	0	12,455
Capital Outlay	10,000	5,728	0	0	0	15,728
<b>Total Disbursements</b>	<b>222,718</b>	<b>70,137</b>	<b>5,044</b>	<b>0</b>	<b>28,627</b>	<b>326,526</b>
<b>Excess of Receipts Over (Under) Disbursements</b>	<b>4,880</b>	<b>3,914</b>	<b>9,656</b>	<b>125</b>	<b>(10,762)</b>	<b>7,813</b>
<b>Other Financing Sources (Uses)</b>						
Transfers-In	0	0	0	0	75	75
Advances-In	4,000	0	3,500	0	11,167	18,667
Transfers-Out	(75)	0	0	0	0	(75)
Advances-Out	(14,667)	0	(2,000)	0	(2,000)	(18,667)
Other Financing Sources	8,229	0	0	0	0	8,229
Other Financing Uses	(1,932)	0	0	0	0	(1,932)
<b>Total Other Financing Sources (Uses)</b>	<b>(4,445)</b>	<b>0</b>	<b>1,500</b>	<b>0</b>	<b>9,242</b>	<b>6,297</b>
<b>Net Change in Fund Balances</b>	<b>435</b>	<b>3,914</b>	<b>11,156</b>	<b>125</b>	<b>(1,520)</b>	<b>14,110</b>
<b>Fund Balances Beginning of Year</b>	<b>57,054</b>	<b>32,671</b>	<b>2,563</b>	<b>20,967</b>	<b>5,294</b>	<b>118,549</b>
<b>Fund Balances End of Year</b>	<b>\$57,489</b>	<b>\$36,585</b>	<b>\$13,719</b>	<b>\$21,092</b>	<b>\$3,774</b>	<b>\$132,659</b>

See accompanying notes to the basic financial statements.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$165,372	\$165,372	\$147,729	(\$17,643)
Licenses, Permits and Fees	4,000	4,000	2,650	(1,350)
Intergovernmental	46,900	49,755	59,054	9,299
Earnings on Investments	1,200	1,200	2,559	1,359
Miscellaneous	23,855	25,000	15,606	(9,394)
<i>Total receipts</i>	<u>241,327</u>	<u>245,327</u>	<u>227,598</u>	<u>(17,729)</u>
<b>Disbursements</b>				
Current:				
General Government	105,195	106,873	97,691	9,182
Public Works	2,492	2,532	2,213	319
Health	6,767	6,875	6,009	866
Conservation-Recreation	16,573	16,838	14,717	2,121
Capital Outlay	11,261	11,442	10,000	1,442
Debt Service:				
Principal Retirement	89,805	91,236	79,746	11,490
Interest and Fiscal Charges	14,026	14,250	12,455	1,795
<i>Total Disbursements</i>	<u>246,119</u>	<u>250,046</u>	<u>222,831</u>	<u>27,215</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(4,792)</u>	<u>(4,719)</u>	<u>4,767</u>	<u>9,486</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	0	0
Transfers Out	0	(75)	(75)	0
Advances In	0	0	4,000	4,000
Advances Out	(3,000)	(3,000)	(14,667)	(11,667)
Other Financing Sources	0	0	8,229	8,229
Other Financing Uses	(1,932)	(1,932)	(1,932)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(4,932)</u>	<u>(5,007)</u>	<u>(4,445)</u>	<u>562</u>
<i>Net Change in Fund Balance</i>	(9,724)	(9,726)	322	10,048
<i>Fund Balance Beginning of Year</i>	57,054	57,054	57,054	0
Prior Year Encumbrances Appropriated	113	113	113	0
<i>Fund Balance End of Year</i>	<u>\$47,443</u>	<u>\$47,441</u>	<u>\$57,489</u>	<u>\$10,048</u>

See accompanying notes to the basic financial statements.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
GASOLINE TAX FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$0	\$0	\$0	\$0
Licenses, Permits and Fees	0	0	0	0
Intergovernmental	59,422	59,422	73,488	14,066
Earnings on Investments	455	455	563	108
Miscellaneous	0	0	0	0
<i>Total receipts</i>	<u>59,877</u>	<u>59,877</u>	<u>74,051</u>	<u>14,174</u>
<b>Disbursements</b>				
Current:				
General Government	0	0	0	0
Public Safety	10,364	10,364	9,031	1,333
Public Works	63,749	63,749	55,471	8,278
Health	0	0	0	0
Conservation-Recreation	0	0	0	0
Capital Outlay	6,573	6,573	5,728	845
Debt Service:				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	0
<i>Total Disbursements</i>	<u>80,686</u>	<u>80,686</u>	<u>70,230</u>	<u>10,456</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(20,809)</u>	<u>(20,809)</u>	<u>3,821</u>	<u>24,630</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Advances In	0	0	0	0
Advances Out	0	0	0	0
Other Financing Sources	0	0	0	0
Other Financing Uses	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	(20,809)	(20,809)	3,821	24,630
<i>Fund Balance Beginning of Year</i>	32,671	32,671	32,671	0
Prior Year Encumbrances Appropriated	93	93	93	0
<i>Fund Balance End of Year</i>	<u>\$11,955</u>	<u>\$11,955</u>	<u>\$36,585</u>	<u>\$24,630</u>

See accompanying notes to the basic financial statements.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
CEMETERY FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$0	\$0	\$0	\$0
Licenses, Permits and Fees	1,147	3,234	3,500	266
Intergovernmental	0	0	0	0
Earnings on Investments	0	0	0	0
Miscellaneous	3,667	10,079	11,200	1,121
<i>Total receipts</i>	<u>4,814</u>	<u>13,313</u>	<u>14,700</u>	<u>1,387</u>
<b>Disbursements</b>				
Current:				
General Government	0	0	0	0
Public Safety	0	0	0	0
Public Works	0	0	0	0
Health	7,389	17,388	5,056	12,332
Conservation-Recreation	0	0	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	0
<i>Total Disbursements</i>	<u>7,389</u>	<u>17,388</u>	<u>5,056</u>	<u>12,332</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(2,575)</u>	<u>(4,075)</u>	<u>9,644</u>	<u>13,719</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Advances In	0	3,500	3,500	0
Advances Out	0	(2,000)	(2,000)	0
Other Financing Sources	0	0	0	0
Other Financing Uses	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>1,500</u>	<u>1,500</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(2,575)</u>	<u>(2,575)</u>	<u>11,144</u>	<u>13,719</u>
<i>Fund Balance Beginning of Year</i>	<u>2,563</u>	<u>2,563</u>	<u>2,563</u>	<u>0</u>
Prior Year Encumbrances Appropriated	<u>12</u>	<u>12</u>	<u>12</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$13,719</u></u>	<u><u>\$13,719</u></u>

See accompanying notes to the basic financial statements.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS  
RECREATION BOARD FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$0	\$0	\$0	\$0
Licenses, Permits and Fees	0	0	0	0
Intergovernmental	0	0	0	0
Earnings on Investments	0	0	0	0
Miscellaneous	20,309	20,309	125	(20,184)
<i>Total receipts</i>	<u>20,309</u>	<u>20,309</u>	<u>125</u>	<u>(20,184)</u>
<b>Disbursements</b>				
Current:				
General Government	0	0	0	0
Public Safety	0	0	0	0
Public Works	0	0	0	0
Health	0	0	0	0
Conservation-Recreation	21,094	21,094	0	21,094
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	0	0	0	0
Interest and Fiscal Charges	0	0	0	0
<i>Total Disbursements</i>	<u>21,094</u>	<u>21,094</u>	<u>0</u>	<u>21,094</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(785)</u>	<u>(785)</u>	<u>125</u>	<u>910</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	0	0	0	0
Transfers Out	0	0	0	0
Advances In	0	0	0	0
Advances Out	0	0	0	0
Other Financing Sources	0	0	0	0
Other Financing Uses	0	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balance</i>	<u>(785)</u>	<u>(785)</u>	<u>125</u>	<u>910</u>
<i>Fund Balance Beginning of Year</i>	<u>20,967</u>	<u>20,967</u>	<u>20,967</u>	<u>0</u>
Prior Year Encumbrances Appropriated	0	0	0	0
<i>Fund Balance End of Year</i>	<u>\$20,182</u>	<u>\$20,182</u>	<u>\$21,092</u>	<u>\$910</u>

See accompanying notes to the basic financial statements.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$144,614	\$0	\$0	\$144,614
Intergovernmental	45,506	89,598	0	135,104
Licenses, Permits, and Fees	3,310	2,940	0	6,250
Earnings on Investments	1,193	381	0	1,574
Other Revenue	18,322	2,454	0	20,776
<b>Total Cash Receipts</b>	<b>212,945</b>	<b>95,373</b>	<b>0</b>	<b>308,318</b>
<b>Cash Disbursements:</b>				
Current:				
General Government	102,579	12,165	0	114,744
Public Safety	0	7,411	0	7,411
Public Works	1,715	58,260	0	59,975
Health	2,649	4,886	0	7,535
Conservation - Recreation	9,138	0	0	9,138
Debt Service:				
Redemption of Principal	48,598	0	0	48,598
Interest and Fiscal Charges	15,943	0	0	15,943
Capital Outlay	33,834	16,957	8,870	59,661
<b>Total Cash Disbursements</b>	<b>214,456</b>	<b>99,679</b>	<b>8,870</b>	<b>323,005</b>
Total Receipts Over/(Under) Disbursements	(1,511)	(4,306)	(8,870)	(14,687)
<b>Other Financing Receipts and (Disbursements):</b>				
Transfers-In	29,125	3,144	0	32,269
Advances-In	9,500	10,000	0	19,500
Transfers-Out	(3,144)	(29,125)	0	(32,269)
Advances-Out	(10,000)	(9,500)	0	(19,500)
Other Financing Sources	2,472	0	0	2,472
Other Financing Uses	0	(2,032)	0	(2,032)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>27,953</b>	<b>(27,513)</b>	<b>0</b>	<b>440</b>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	26,442	(31,819)	(8,870)	(14,247)
Fund Cash Balances, January 1, 2004	30,612	93,314	8,870	132,796
<b>Fund Cash Balances, December 31, 2004</b>	<b>\$57,054</b>	<b>\$61,495</b>	<b>\$0</b>	<b>\$118,549</b>
Reserve for Encumbrances, December 31, 2004	\$113	\$133	\$0	\$246

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

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**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND DECEMBER 31, 2002**

**1. REPORTING ENTITY**

Penfield Township, Lorain County, Ohio, (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township also has an elected Township Fiscal Officer.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

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

***A. Primary Government***

The Township provides general governmental services including road and bridge maintenance and cemetery maintenance. The Township's police protection is provided by the Lorain County Sheriff, and the Township is a member of the Wellington Community Fire District which provides fire service, and the South Lorain County Ambulance District which provides ambulance services to the Township.

***B. Component Units***

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Township is obligated for the debt of the organization. The Township is also financially accountable for any organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Township, are accessible to the Township and are significant in amount to the Township.

There are no Component Units affiliated with the Township.

***C. Public Entity Risk Pools and Jointly Governed Organizations***

The Township participates in one public entity risk pool. Note 8 to the financial statements provide additional information for this entity. This organization is the Ohio Township Association Risk Management Authority. The Township is a member of the Wellington Community Fire District and the South Lorain County Ambulance District which are jointly governed organizations.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As described further in Note 2C, the financial statements for fiscal year 2005 are presented on a modified cash basis of accounting and for fiscal year 2004 they are presented on a basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Township's accounting policies.

***A. Basis of Presentation***

The Township's basic financial statements for fiscal year 2005 consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information. The financial statements for fiscal year 2004 consist of a statement of cash receipts, cash disbursements, and changes in fund cash balances.

***Government-Wide Financial Statements***

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions.

The statement of net assets presents the cash balance of the governmental activities of the Township at year end. The statement of activities compares disbursements with program receipts for each of the Township's governmental-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Township is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program and receipts of interest earned on grants that is required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Township's general receipts.

***Fund Financial Statements***

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

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

***B. Fund Accounting***

The Township uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. The Township's funds are all classified as governmental.

***Governmental Funds***

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. For fiscal year 2005, the Township's major governmental funds are as follows:

**General Fund**—The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. It is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**Cemetery Fund**—This fund receives estate tax revenue and plot fees for cemetery operations.

**Recreation Board Fund**—This fund receives donations for the Township's parks.

The other governmental funds of the Township account for grants and other resources whose use is restricted to a particular purpose.

***Fiduciary Funds***

Fiduciary funds include pension trust funds, investment trust funds, private purpose trust funds, and agency funds. There was no activity in any of the Township's Fiduciary Funds during fiscal year 2004 or fiscal year 2005.

***C. Basis of Accounting***

For the year ending December 31, 2005, the Township's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the Township's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

For the year ending December 31, 2004, the Township's financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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).

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

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

***C. Basis of Accounting (Continued)***

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

***D. Budgetary Process***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township. The legal level of control has been established at the fund level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Township Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Township.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

***E. Cash and Investments***

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records. During fiscal year 2005, interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2004 and 2005, the Township invested in STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

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

***E. Cash and Investments (Continued)***

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest receipts credited to the General Fund during 2005 amounted to \$2,559 which includes \$1,206 assigned from other Township funds. Interest receipts credited to the General Fund during 2004 amounted to \$1,193 which includes \$435 assigned from other Township funds.

***F. Restricted Assets***

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation.

***G. Inventory and Prepaid Items***

The Township reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

***H. Capital Assets***

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

***I. Interfund Receivables/Payables***

The Township reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

***J. Accumulated Leave***

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's modified cash basis of accounting.

***K. Employer Contributions to Cost-Sharing Pension Plans***

The Township recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

***L. Long-Term Obligations***

The Township's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

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

***M. Net Assets***

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for construction and maintenance of roads and bridges, cemetery operations and park operations.

The Township's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available. The amount of net assets restricted by enabling legislation as of December 31, 2005 is \$75,170.

***N. Fund Balance Reserves***

The Township reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

***O. Interfund Transactions***

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

**3. CHANGE IN BASIS OF ACCOUNTING**

For fiscal year ending December 31, 2004, the Township reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. For fiscal year ending December 31, 2005, the Township has implemented the cash basis of accounting described in Note 2, which revised the Township's financial presentation to be comparable to the requirements of Governmental Accounting Standard Board (GASB) Statement No. 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

For 2004, the Township implemented GASB Statement No. 40 "Deposits and Investment Risk Disclosures." This statement establishes new disclosure requirements for risks associated with deposits and investments.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**4. BUDGETARY BASIS OF ACCOUNTING**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund, Gasoline Tax Fund, Cemetery Fund, and the Recreation Board Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the modified cash basis is outstanding year end encumbrances which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$569 for the General Fund, \$411 for the Gasoline Tax Fund, \$47 for the Cemetery Fund, and \$0 for the Recreation Board Fund.

For fiscal year ending December 31, 2004, the Township reported the following budgetary activity regarding budgeted receipts and appropriations.

2004 Budgeted vs. Actual Budgetary Basis Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$230,657	\$244,542	\$13,885
Special Revenue	111,933	98,517	(13,416)
Total	\$342,590	\$343,059	\$469

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$189,335	\$217,713	(\$28,378)
Special Revenue	158,742	130,969	27,773
Capital Projects	8,870	8,870	0
Total	\$356,947	\$357,552	(\$605)

**5. COMPLIANCE AND ACCOUNTABILITY**

The following funds had expenditures plus encumbrances in excess of appropriations at the fund level as of December 31, 2004 contrary to Ohio Revised Code Section 5705.41(B).

Fund	Appropriations Plus Prior Year Encumbrances	Expenditures Plus Encumbrances	Variance
General Fund	\$189,335	\$217,713	\$28,378
Cemetery Fund	2,693	8,130	5,437
Special Levy Fund	0	13,963	13,963

Management has indicated the authorization of appropriations will be properly monitored to ensure no future violations.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**6. DEPOSITS AND INVESTMENTS**

Monies held by the Township are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Township treasury. Active monies must be maintained either as cash in the Township treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Township can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Township, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**6. DEPOSITS AND INVESTMENTS (Continued)**

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end 2005, none of the Township's bank balance of \$33,568 was exposed to custodial credit risk because those deposits were insured by the Federal Depository Insurance Corporation (FDIC). At fiscal year end 2004, none of the Township's bank balance of \$25,814 was exposed to custodial credit risk because those deposits were insured by the FDIC.

The Township has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Township or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

**Investments**

As of December 31, 2005 and December 31, 2004, the Township had the following investments:

	<u>Carrying Value</u>	<u>Maturity</u>
December 31, 2005 STAR Ohio	\$112,938	Less than One Year
December 31, 2004 STAR Ohio	\$98,024	Less than One Year

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Township does not have an investment policy beyond the requirements of state statute. Ohio law addresses interest rate risk by requiring that the Township's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAR Ohio carries a rating of AAAM by Standard and Poor's. The Township has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**7. PROPERTY TAXES**

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Real property tax receipts received in 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 and 2004 represent the collection of 2004 and 2003 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2004, were levied after October 1, 2005 and are collected with real property taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 and 2004 (other than public utility property) represent the collection of 2005 and 2004 taxes respectively. Tangible personal property taxes received in 2005 and 2004 were levied after October 1, 2004 and 2003 respectively, on the true value as of December 31, 2004 and 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Township operations for the year ended December 31, 2005 and December 31, 2004, was \$23.81 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

	2005	2004
Real Property		
Residential	\$34,017,230	\$32,819,100
Agricultural	6,698,720	6,682,580
Commercial/Industrial/Mineral	362,820	364,820
Tangible Personal Property	1,030,277	801,060
Business	0	0
Public Utility	<u>1,640,390</u>	<u>1,617,470</u>
Total Assessed Value	<u>43,749,437</u>	<u>42,285,030</u>

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**8. DEFINED BENEFIT PENSION PLAN**

***Ohio Public Employees Retirement System***

The Township participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005 and December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2005 and 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$5,702, \$6,053, and \$6,400 respectively. The full amount has been contributed for 2005, 2004 and 2003.

**9. POSTEMPLOYMENT BENEFITS**

***Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 and 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**9. POSTEMPLOYMENT BENEFITS (Continued)**

***Ohio Public Employees Retirement System (Continued)***

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans as of December 31, 2005 was 376, 109. Actual employer contributions for 2005 and 2004 which were used to fund postemployment benefits were \$2,388 and \$2,535 respectively. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2004, were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**10. DEBT**

The Township's long-term debt activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
Governmental Activities						
Community Center Note	4.20%	\$335,218	\$0	\$79,746	\$255,472	\$36,909
<b>Total</b>		<u>\$335,218</u>	<u>\$0</u>	<u>\$79,746</u>	<u>\$255,472</u>	<u>\$36,909</u>

The Township's long-term debt activity for the year ended December 31, 2004, was as follows:

	Interest Rate	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Due Within One Year
Governmental Activities						
Community Center Note	4.20%	\$383,816	\$0	\$48,598	\$335,218	\$35,406
<b>Total</b>		<u>\$383,816</u>	<u>\$0</u>	<u>\$48,598</u>	<u>\$335,218</u>	<u>\$35,406</u>

During 2003, the Township entered into a \$400,000 loan to build a Community Center. The loan is collateralized by the Township's taxing authority. During 2004 and 2005, the Township made additional principal payments on the note.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**10. DEBT (Continued)**

The following is a summary of the Township's future annual debt service requirements:

Year	Principal	Interest
2006	\$36,909	\$12,632
2007	38,475	11,066
2008	40,081	9,460
2009	41,809	7,732
2010	98,198	3,181
Totals	<u>\$255,472</u>	<u>\$44,071</u>

**11. 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 Government 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. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member townships pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Townships can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**11. 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, 2005 and 2004.

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	<u>(12,344,576)</u>	<u>(11,086,379)</u>
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	<u>(1,406,031)</u>	<u>(543,176)</u>
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

At December 31, 2005 and 2004, respectively, casualty coverage liabilities noted above include approximately \$11.6 million and \$10.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$21,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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.

**Township Contributions to OTARMA**

2003	\$9,463
2004	\$10,374
2005	\$10,294

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA. They must provide written notice to OTARMA 60 days in advance of 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 was incurred or reported prior to the withdrawal.



# Mary Taylor, CPA

## Auditor of State

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

Penfield Township  
Lorain County  
42760 Peck-Wadsworth Road  
Wellington, Ohio 44090

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Penfield Township, Lorain County, Ohio, (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements. We have also audited the accompanying financial statements of Penfield Township, Lorain County, Ohio (the Township) as of and for the year ended December 31, 2004. We have issued our report thereon dated February 27, 2007, wherein we noted for fiscal year ended December 31, 2005, the Township revised its financial statement presentation comparable to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We also noted for fiscal year ended December 31, 2004, the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-004.

### **Internal Control Over Financial Reporting (Continued)**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Township's management dated February 27, 2007, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2005-001, 2005-002 and 2005-003. In a separate letter to the Township's management dated February 27, 2007, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA  
Auditor of State

February 27, 2007

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2005-001</b>
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**Material Noncompliance**

**Proper Encumbrance of Funds**

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Board.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Board may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During our testing of nonpayroll disbursements, we tested 78 nonpayroll checks issued during the audit period. These 78 checks were comprised of 136 individual invoices. Testing indicated 26 of these 136 invoices (19%) were entered into prior to receiving the Fiscal Officer's certification.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2005-001</b>
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**Proper Encumbrance of Funds (Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify that funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

We recommend the Township certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials' Response:**

Management has chosen to not respond to this finding.

<b>FINDING NUMBER</b>	<b>2005-002</b>
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**Expenditures Plus Encumbrances in Excess of Appropriations \***

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from making expenditures unless it has been properly appropriated. Budgetary expenditures (that is, disbursements and encumbrances) as enacted by the Board of Trustees may not exceed appropriations at the legal level for all funds. The following funds had expenditures plus encumbrances in excess of appropriations as of December 31, 2004 at the fund level:

Fund	Appropriations Plus Prior Year Encumbrances	Expenditures Plus Encumbrances	Variance
General Fund	\$189,335	\$217,713	\$28,378
Cemetery Fund	\$2,693	\$8,130	\$5,437
Special Levy Fund	\$0	\$13,963	\$13,963

We recommend the Township verify that all expenditures and encumbrances have proper appropriation authority prior to expending funds or certifying encumbrances and compare appropriations to expenditures plus encumbrances in all funds which are legally required to be budgeted to maintain compliance with the above requirements.

**Officials' Response:**

Management has chosen to not respond to this finding.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2005-003</b>
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**Allocation of Trustee Payroll Expenditures**

Ohio Rev. Code Section 505.24(C) allows for Trustees to receive either per diem compensation or compensation by annual salary. For Trustees receiving per diem compensation, the Trustees must resolve a method by which each Trustee shall periodically notify the Township Fiscal Officer of the number of days spent on Township services and the kinds of services rendered on those days. The per diem compensation shall be paid from the Township general fund or from other Township funds in proportion to the kinds of services rendered, as documented.

For Trustees receiving compensation by annual salary, Ohio Revised Code Section 505.24(C) permits Trustees to receive annual salaries instead of per diem payments. When paid by salary, ORC 505.24(C) does not prescribe a "documentation of time spent" requirement. However, for salaries not paid from the general fund, OAG Opinion 2004-036 requires Trustees to establish administrative procedures to document the proportionate amount chargeable to other Township funds based on the kinds of services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the Trustees document all time spent on Township business and the type of service performed, in a manner similar to Trustees paid per diem compensation. If Trustees do not document their time, then no part of salaries may be paid from these other funds. If a Township passes a resolution regarding the allocation of Trustee salaries, the resolution must specify that a Township will allocate salaries based on documentation the Trustees submit, not based on percentages a resolution specifies.

During our payroll testing, we noted that Trustee salaries were being paid from both the gasoline tax fund and the general fund. No resolution was passed in either 2004 or 2005 regarding the allocation of Trustee salaries. According to a resolution passed in November 2001, the Fiscal Officer was to allocate eight months of Trustee salaries to the gasoline tax fund and four months of Trustee salaries to the general fund. However, this allocation was not followed in either 2004 or 2005. During 2004 one Trustee had 10 months of his salary charged to the gasoline tax fund and two months charged to the general fund. The other two Trustees had 11 months of their salaries charged to the gasoline tax fund and one month to the general fund. During 2005, all three Trustees had nine months of their salaries charged to the gasoline tax fund and three months charged to the general fund.

The salary resolution passed in November 2001 was not specific with regard to the documentation the Trustees were required to submit and how the salaries were to be allocated based on this documentation. In addition, the Trustees did not utilize timesheets or other related documentation to show how much of their time was spent on Township tasks related to the funds to which their salaries were charged.

We recommend the Township either pay Trustee salaries entirely from the general fund, or, if salaries are to be paid from other funds, pass a resolution specifying that Trustee salaries can be paid from those other funds based on documentation the Trustees submit, not based on percentages specified in the resolution. The documentation submitted by the Trustees can be timesheets or a similar method of record keeping, as long as the Trustees document all time spent on Township business and the type of service performed.

**Officials' Response:**

Management has chosen to not respond to this finding.

**PENFIELD TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2005-004</b>
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**Reportable Condition**

**Manual Checks**

During our examination of expenditures, we noted the frequent use of manual checks by the Fiscal Officer. These checks include handwritten information, such as the payee, check date, check amount, and check number (which on such checks was sometimes written over the printed check number).

On numerous occasions, we noted the information handwritten on the check by the Fiscal Officer did not agree to the corresponding information listed in the UAN payment register. We noted numerous instances whereby the check date and or check number did not agree to the check date or check number listed in the payment register, and instances whereby the check amount did not agree to the amount recorded in the payment register.

We also noted numerous instances whereby the information on system-generated checks did not agree to the information posted in the system. The information printed by UAN onto the check itself (vendor, amount, check date, and warrant number) agreed to the system, but the warrant number per the UAN system did not agree to the check number on the actual check itself, indicating that the Fiscal Officer utilized the wrong preprinted check to process the transaction.

The Township receives security deposits from individuals or groups renting the Township hall. These security deposits are returned to the customer after the event. During the audit period, we noted several instances where the Township wrote a check to the customer for the refund amount, but rather than inputting this transaction as a check in the system, the Fiscal Officer inputted this transaction as a negative receipt. Therefore, the transactions did not show up on the UAN check register as checks; rather, they showed up on the receipt register as negative receipts, with a side notation denoting which check number the refund was written on. We observed the canceled checks and traced them to the following months' bank statements to ensure they were in fact cleared.

Discrepancies noted above relating to manual and system-generated checks could cause reconciliation issues if the amounts actually paid are not the amounts recorded by the Fiscal Officer in the UAN system. Also, recording a security deposit refund as a negative receipt rather than as a non-payroll disbursement in the check register could cause reconciliation issues, since the checks that are clearing the bank are not listed on the payment register. This also makes it difficult to accurately monitor outstanding checks since the refund checks were not entered into the system as checks in the first place.

We recommend that the Township implement procedures to ensure that the information written on Township checks agrees to the information recorded in the UAN payment register. We also recommend that the Township process refunds consistently, recording the transaction as a check in the system rather than as a negative receipt.

PENFIELD TOWNSHIP  
LORAIN COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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<b>FINDING NUMBER</b>	<b>2005-004</b>
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**Manual Checks (Continued)**

**Officials' Response:**

The checks that were bought were erroneously not printed as laser checks and the number sequence was reversed. Because of this, each check had to be put in a different sequence.

The Township receives a security deposit for the hall rental. The Fiscal Officer was informed that since the receipt is being reduced, it should be recorded that way, rather than as a check in the UAN system. The Fiscal Officer is currently recording these security deposit refunds as checks in the system, rather than as reductions of receipts. This is because, on occasion, the Township receives money for hall rentals in the current year that are for rentals occurring in the next fiscal year. Since the "reduction of receipt" option is not available for these receipts collected in the current year, the Township writes a check to refund the security deposit in the next fiscal year. For consistency, all security deposit refunds are now being recorded as checks in the system.

PENFIELD TOWNSHIP  
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2003-001	Receipt transactions were improperly posted to the revenue ledger	No	Partially corrected; reissued as management letter comment.



**Mary Taylor, CPA**  
Auditor of State

**PENFIELD TOWNSHIP**

**LORAIN COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 12, 2007**