



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 an 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 adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

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Auditor of State

January 15, 2009

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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 Penfield Township, Lorain County, Ohio, (the Township) as of and for the years ended December 31, 2007 and December 31, 2006. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and December 31, 2006 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, 2007 and December 31, 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Penfield Township, Lorain County, Ohio as of December 31, 2007 and December 31, 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2009, 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.



Mary Taylor, CPA
Auditor of State

January 15, 2009

**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, 2007**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$175,651	\$0	\$175,651
Licenses, Permits, and Fees	5,396	2,495	7,891
Intergovernmental	105,087	106,408	211,495
Earnings on Investments	13,531	1,174	14,705
Miscellaneous	20,565	0	20,565
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	320,230	110,077	430,307
Cash Disbursements:			
Current:			
General Government	113,078	14,405	127,483
Public Safety	0	1,141	1,141
Public Works	0	114,808	114,808
Health	6,789	8,219	15,008
Conservation - Recreation	16,022	0	16,022
Capital Outlay	0	7,233	7,233
Debt Service:			
Redemption of Principal	40,888	0	40,888
Interest and Other Fiscal Charges	8,653	0	8,653
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	185,430	145,806	331,236
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>
	134,800	(35,729)	99,071
Other Financing Receipts / (Disbursements):			
Transfers-In	0	5,432	5,432
Transfers-Out	(5,432)	0	(5,432)
Advances-In	2,040	2,040	4,080
Advances-Out	(2,040)	(2,040)	(4,080)
Other Financing Sources	13,188	0	13,188
Other Financing Uses	(1,000)	0	(1,000)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	6,756	5,432	12,188
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>
	141,556	(30,297)	111,259
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	166,264	75,629	241,893
Fund Cash Balances, December 31	<hr/> \$307,820 <hr/>	<hr/> \$45,332 <hr/>	<hr/> \$353,152 <hr/>
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>
	\$775	\$3,243	\$4,018

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

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$153,418	\$0	\$153,418
Licenses, Permits, and Fees	4,870	4,180	9,050
Intergovernmental	77,856	103,062	180,918
Earnings on Investments	7,080	1,719	8,799
Miscellaneous	30,633	1,400	32,033
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	273,857	110,361	384,218
Cash Disbursements:			
Current:			
General Government	106,002	11,329	117,331
Public Works	0	76,723	76,723
Health	7,878	5,600	13,478
Conservation - Recreation	12,966	0	12,966
Capital Outlay	700	16,250	16,950
Debt Service:			
Redemption of Principal	39,176	0	39,176
Interest and Other Fiscal Charges	10,365	0	10,365
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	177,087	109,902	286,989
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>
	96,770	459	97,229
Other Financing Receipts/(Disbursements):			
Advances-In	2,000	12,000	14,000
Advances-Out	(2,000)	(12,000)	(14,000)
Other Financing Sources	13,815	0	13,815
Other Financing Uses	(1,810)	0	(1,810)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	12,005	0	12,005
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>
	108,775	459	109,234
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	57,489	75,170	132,659
Fund Cash Balances, December 31	<hr/> \$166,264 <hr/>	<hr/> \$75,629 <hr/>	<hr/> \$241,893 <hr/>
Reserve for Encumbrances, December 31	<hr/>	<hr/>	<hr/>
	\$1,569	\$1,542	\$3,111

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

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Penfield Township, Lorain County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides general government services, maintenance of Township roads and bridges, and cemetery maintenance. The Township's police protection is provided by the Lorain County Sheriff. The Township is a member of the Wellington Community Fire District which provides fire protection and the South Lorain County Ambulance District which provides ambulance and emergency medical services.

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.

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

The Township also participates in the following jointly governed organizations: the South Lorain County Ambulance District; Wellington Community Fire District; Rural Lorain County Water Authority; and Lorain County Rural Wastewater District. Note 8 to the financial statements provides additional information for these entities.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Money market mutual funds are recorded at share values the mutual funds report.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

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.

3. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Township's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The resources are disbursed as directed by the individual, organization or other government.

The Township has no fiduciary funds.

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund level, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

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

2. Equity in Pooled Cash and Investments

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

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)**

2. Equity in Pooled Cash and Investments (Continued)

	2007	2006
Demand deposits	\$27,463	\$22,358
Total deposits	27,463	22,358
Star Ohio	325,689	219,535
Total investments	325,689	219,535
Total deposits and investments	\$353,152	\$241,893

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

Investments:

Investments in Star Ohio are not evidenced by securities that exist in physical or book-entry form.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$283,418	\$333,418	\$50,000
Special Revenue	159,934	115,509	(44,425)
Total	\$443,352	\$448,927	\$5,575

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$305,432	\$192,637	\$112,795
Special Revenue	182,031	149,049	32,982
Total	\$487,463	\$341,686	\$145,777

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$272,701	\$287,672	\$14,971
Special Revenue	112,846	110,361	(2,485)
Total	\$385,547	\$398,033	\$12,486

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$332,257	\$180,466	\$151,791
Special Revenue	175,252	111,444	63,808
Total	\$507,509	\$291,910	\$215,599

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)**

3. Budgetary Activity (Continued)

Contrary to Section 5705.41(B) of the Ohio Revised Code, at December 31, 2007, the Township had expenditures in excess of appropriations in the Cemetery Fund and the Gasoline Tax Fund in the amounts of \$1,626 and \$23,661, respectively and in violation of section 5705.41 (D). The Township was also in violation of section 505.24.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Community Center Note	\$173,360	4.20%
Total	\$173,360	

In 2003, the Township entered into a \$400,000 loan to build a Community Center. The loan is collateralized by the Township's taxing authority. It is being repaid by the General Fund.

Amortization of the above debt is scheduled as follows:

	Principal	Interest
Year ending December 31: 2008	\$173,360	\$3,795

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5% and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85% and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)**

7. Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006, 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. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust PEP'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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

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.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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 government.

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

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)**

7. Risk Management (Continued)

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Assets	\$43,210,703	\$42,042,275
Liabilities	<u>(13,357,837)</u>	<u>(12,120,661)</u>
Net Assets	<u>\$29,852,866</u>	<u>\$29,921,614</u>

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, 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 \$6,504. 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.

Contributions to OTARMA

2005	\$10,294
2006	\$9,672
2007	\$6,917

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they 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, less the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND DECEMBER 31, 2006
(Continued)**

8. Jointly Governed Organizations

South Lorain County Ambulance District

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

Wellington Community Fire District

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

Lorain County Rural Water Authority

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

Lorain County Rural Wastewater District (LORCO)

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



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 Penfield Township, Lorain County, (the Township) as of and for the years ended December 31, 2007 and December 31, 2006, and have issued our report thereon dated January 15, 2009, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits 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. 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Township's management in a separate letter dated January 15, 2009.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-003.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated January 15, 2009.

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



Mary Taylor, CPA
Auditor of State

January 15, 2009

PENFIELD TOWNSHIP
LORAIN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006

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

FINDING NUMBER 2007-001

Material Noncompliance

Proper Certification 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 that 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 that 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 that 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 disbursements, we tested 71 nonpayroll checks issued during the audit period. Testing indicated 11 of these 71 invoices (15%) were entered into prior to receiving the Fiscal Officer's certification.

Lack of proper certification could result in unauthorized expenditures.

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**FINDING NUMBER 2007-001
(Continued)**

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

FINDING NUMBER 2007-002

Expenditures Plus Encumbrances in Excess of Appropriations

Ohio Rev. 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, 2007 at the fund level:

Fund	Appropriations Plus Prior Year Encumbrances	Expenditures Plus Encumbrances	Variance
Gas Tax Fund	\$93,558	\$117,219	\$(23,661)
Cemetery Fund	\$12,202	\$13,828	\$(1,626)

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

FINDING NUMBER 2007-003

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.

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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**FINDING NUMBER 2007-003
(Continued)**

Allocation of Trustee Payroll Expenditures (Continued)

For Trustees receiving compensation by annual salary, Ohio Rev. 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 2006 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 2006. During 2006, Trustee's had nine months of salary charged to the Gasoline Tax Fund and three months charged to the General Fund. A resolution was passed in December 2006 for the allocation of 2007 Trustee salaries. According to the resolution, the Fiscal Officer was to allocate nine months of Trustee salaries to the Gasoline Tax Fund and three months of Trustee's salaries to the General Fund. However, this allocation was not followed in 2007. During 2007, Trustee's had 4.66 months of salary charged to the Gasoline Tax Fund and 7.33 months charged to the General Fund.

The salary resolution passed in December 2006 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.

Not adequately documenting time charged to other funds could result in a finding for adjustment against the General Fund. 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:

We did not receive a response from Officials to the findings reported above.

**PENFIELD TOWNSHIP
LORAIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Non-payroll expenditures invoices were entered into prior to Fiscal Officer's certification	No	Reissue as finding 2007-001
2005-002	Funds had expenditures plus encumbrances in excess of appropriations	No	Reissue as finding 2007-002
2005-003	Allocation of Trustee payroll expenditures	No	Reissue as finding 2007-003
2005-004	System generated checks did not agree to information posted in the system	Yes	



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
FEBRUARY 19, 2009**