

PAINESVILLE TOWNSHIP

LAKE COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2017 and 2016





Dave Yost • Auditor of State

Township Trustees
Painesville Township
55 Nye Road
Painesville, Ohio 44077

We have reviewed the *Independent Auditor's Report* of Painesville Township, Lake County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2016 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Painesville Township is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

August 24, 2018

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**PAINESVILLE TOWNSHIP
LAKE COUNTY
Audit Report
For the Years Ended December 31, 2017 and 2016**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Painesville Township
Lake County
55 Nye Road
Painesville, OH 44077-1403

To the Township Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Painesville Township, Lake County, Ohio (the Township) as of and for the years ended December 31, 2017 and 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as our evaluation of the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2017 and 2016, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of Painesville Township, Lake County, Ohio, as of December 31, 2017 and 2016, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2018, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
June 5, 2018

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$ 187,277	\$ 4,789,692	\$ 4,976,969
Charges for Services	-	399,163	399,163
Licenses, Permits and Fees	334,016	1,180	335,196
Fines and Forfeitures	213	-	213
Intergovernmental	234,808	1,495,070	1,729,878
Special Assessments	-	103,224	103,224
Earnings on Investments	4,684	844	5,528
Miscellaneous	21,505	103,833	125,338
	<u>782,503</u>	<u>6,893,006</u>	<u>7,675,509</u>
<i>Total Cash Receipts</i>			
Cash Disbursements			
Current:			
General Government	806,746	49,027	855,773
Public Safety	-	4,864,465	4,864,465
Public Works	84,127	1,373,692	1,457,819
Conservation-Recreation	7,765	-	7,765
Other	22,981	-	22,981
Capital Outlay	1,544	786,878	788,422
Debt Service:			
Principal Retirement	2,389	-	2,389
	<u>925,552</u>	<u>7,074,062</u>	<u>7,999,614</u>
<i>Total Cash Disbursements</i>			
<i>Excess of Receipts Over (Under) Disbursements</i>	(143,049)	(181,056)	(324,105)
Other Financing Receipts (Disbursements)			
Sale of Capital Assets	-	356	356
Advances In	40,000	-	40,000
Advances Out	-	(40,000)	(40,000)
	<u>40,000</u>	<u>(39,644)</u>	<u>356</u>
<i>Total Other Financing Receipts (Disbursements)</i>			
<i>Net Change in Fund Cash Balances</i>	(103,049)	(220,700)	(323,749)
<i>Fund Cash Balances, January 1</i>	<u>2,622,941</u>	<u>3,700,776</u>	<u>6,323,717</u>
Fund Cash Balances, December 31			
Restricted	-	3,480,076	3,480,076
Assigned	272,083	-	272,083
Unassigned	2,247,809	-	2,247,809
	<u>\$ 2,519,892</u>	<u>\$ 3,480,076</u>	<u>\$ 5,999,968</u>
<i>Fund Cash Balances, December 31</i>			

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

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Painesville Township, Lake 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, road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services.

Jointly Governed Organizations and Public Entity Risk Pools

The Township participates in one jointly governed organization and one public entity risk pool. Notes 7 and 12 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.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

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

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

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

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

Fire District Fund - This fund receives property tax money to provide fire services to Township’s residents.

Police District Fund - This fund receives property tax money for patrol services for the Township.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of Accounting

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

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

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

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 approve estimated resources.

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

A summary of 2017 budgetary activity appears in Note 3.

Deposits and Investments

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

The Township values U.S. Treasury Notes at cost. Money market mutual funds are recorded at share values the mutual funds report.

Capital Assets

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

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 – Summary of Significant Accounting Policies (continued)

Accumulated Leave

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

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

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute. The Board may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget in the General Fund.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 3 – Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,071,509	\$822,503	(\$249,006)
Special Revenue	6,709,747	6,893,362	183,615
Capital Projects	300,000	-	(300,000)

2017 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$1,101,936	\$929,293	\$172,643
Special Revenue	7,882,529	7,136,709	745,820
Capital Projects	300,000	-	300,000

Note 4 – Deposits and Investments

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

	2017
Demand Deposits	\$1,676,391
Saving Account	4,323,477
Total deposits and investments	\$5,999,868

The Township also had \$100 of petty cash on hand as of December 31, 2017

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS).

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 5 – Property Taxes

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

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

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

Note 6 – Interfund Balances

Advances at December 31, 2017, consisted of a \$40,000 repayment originally made in 2011 by the General fund to the Special Revenue fund to provide working capital to install new bus stops in the Township. There is no balance at December 31, 2017.

Note 7 – Risk Management

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

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

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2017, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 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, 2017.

	2017
Assets	\$40,010,732
Liabilities	\$8,675,465
Net Position	\$31,335,267

At December 31, 2017 the liabilities above include approximately \$8.0 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,016 member governments in the future, as of December 31, 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Township’s share of these unpaid claims collectible in future years is approximately \$21,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<u>2017 Contributions to OTARMA</u>
--

\$ 48,657

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year’s contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Township employees other than the certified fire fighters belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan’s benefits, which include postretirement healthcare and survivor and disability benefits.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 8 – Defined Benefit Pension Plans (continued)

Ohio Public Employees Retirement System (continued)

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2017.

Ohio Police and Fire Retirement System

The Township's certified Fire Fighters belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25 percent of their wages. The Township contributed to OP&F an amount equal to 24 percent of full-time firefighter members' wages. The Township has paid all contributions required through December 31, 2017.

Social Security

The Township's employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants. Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2017.

Note 9 – Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. OP&F contributes 0.5 percent to fund these benefits.

Note 10 – Debt

Debt outstanding at December 31, 2017, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission - CG14E	\$33,446	0%

The Ohio Public Works Commission issued a 20-year note (CG14E) in to finance the concrete road replacement phase II. The Ohio Public Works Commission is an interest free loan. The Township makes semi-annual payments of \$2,389 from the General Fund.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 10 – Debt (continued)

Amortization

Amortization of the above debt is scheduled as follows:

Year Ending December 31:	Ohio Public Works Commission Loan - CG14E
2017	\$4,778
2018	4,778
2019	4,778
2020	4,778
2021	4,778
2022-2024	9,556
Total	\$33,446

Note 11 – Contingent Liabilities

The Township is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Township’s financial condition.

Note 12 – Jointly Governed Organizations

The Township is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code.

NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 200 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the fourteen-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Ron McVoy, Board Chairman, 31320 Solon Road, Suite 20, Solon, Ohio 44139 or at the website, www.nopecinfo.org.

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$ 165,048	\$ 4,754,500	-	\$ 4,919,548
Charges for Services	-	391,590	-	391,590
Licenses, Permits and Fees	371,596	1,332	-	372,928
Fines and Forfeitures	550	-	-	550
Intergovernmental	304,928	833,038	\$ 285,923	1,423,889
Special Assessments	-	99,972	-	99,972
Earnings on Investments	2,113	425	-	2,538
Miscellaneous	27,414	31,779	-	59,193
<i>Total Cash Receipts</i>	<u>871,649</u>	<u>6,112,636</u>	<u>285,923</u>	<u>7,270,208</u>
Cash Disbursements				
Current:				
General Government	909,176	-	-	909,176
Public Safety	-	4,717,501	-	4,717,501
Public Works	73,286	1,565,850	-	1,639,136
Conservation-Recreation	5,663	-	-	5,663
Other	21,344	-	-	21,344
Capital Outlay	549	383,895	285,923	670,367
Debt Service:				
Principal Retirement	7,167	-	-	7,167
<i>Total Cash Disbursements</i>	<u>1,017,185</u>	<u>6,667,246</u>	<u>285,923</u>	<u>7,970,354</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(145,536)	(554,610)	-	(700,146)
Other Financing Receipts (Disbursements)				
Sale of Capital Assets	-	14,410	-	14,410
<i>Total Other Financing Receipts (Disbursements)</i>	<u>-</u>	<u>14,410</u>	<u>-</u>	<u>14,410</u>
<i>Net Change in Fund Cash Balances</i>	(145,536)	(540,200)	-	(685,736)
<i>Fund Cash Balances, January 1</i>	<u>2,768,477</u>	<u>4,240,976</u>	<u>-</u>	<u>7,009,453</u>
Fund Cash Balances, December 31				
Restricted	-	3,700,776	-	3,700,776
Assigned	32,363	-	-	32,363
Unassigned	2,590,578	-	-	2,590,578
<i>Fund Cash Balances, December 31</i>	<u>\$ 2,622,941</u>	<u>\$ 3,700,776</u>	<u>\$ -</u>	<u>\$ 6,323,717</u>

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

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Painesville Township, Lake 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, road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services.

Jointly Governed Organizations and Public Entity Risk Pools

The Township participates in one jointly governed organization and one public entity risk pool. Notes 6 and 11 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.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

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

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

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

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

Fire District Fund - This fund receives property tax money to provide fire services to Township’s residents.

Police District Fund - This fund receives property tax money for patrol services for the Township.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

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

OPWC Fund - This fund receives OPWC grant money for various construction projects within the Township.

Basis of Accounting

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

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

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

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 approve estimated resources.

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

A summary of 2016 budgetary activity appears in Note 3.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

Deposits and Investments

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

The Township values U.S. Treasury Notes at cost. Money market mutual funds are recorded at share values the mutual funds report.

Capital Assets

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

Accumulated Leave

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

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

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

Restricted Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

Committed Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute. The Board may also assign fund balances as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget in the General Fund.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 – Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

Unassigned Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Note 3 – Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$919,068	\$871,649	(\$47,419)
Special Revenue	6,546,136	6,127,046	(419,090)
Capital Projects	293,923	285,923	(8,000)

2016 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$1,067,864	\$1,019,121	\$48,743
Special Revenue	7,658,393	6,695,828	962,565
Capital Projects	300,000	285,923	14,077

Note 4 – Deposits and Investments

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

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 4 – Deposits and Investments (continued)

	<u>2016</u>
Demand Deposits	\$3,008,687
Saving Account	<u>2,535,397</u>
Total Deposits	5,544,084
Sweep Account	650,000
Money Market Mutual Fund	<u>129,533</u>
Total investments	<u>779,533</u>
Total deposits and investments	<u><u>\$6,323,617</u></u>

The Township also had \$100 of petty cash on hand as of December 31, 2016

Deposits

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

Investments

The Township's financial institution transfers securities to the Township's agent to collateralize repurchase agreements. The securities are not in the Township's name. Investments in mutual funds are not evidenced by securities that exist in physical or book-entry form.

Note 5 – Property Taxes

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

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

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

Note 6 – Interfund Balances

Outstanding advances at December 31, 2016, consisted of \$40,000 originally made in 2011 by the General fund to the Special Revenue fund to provide working capital to install new bus stops in the Township. These were intended to be paid back at the end of 2017.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 – Risk Management

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

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

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members’ deductibles.

Casualty and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge OTARMA’s primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

OTARMA’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2016.

	2016
Assets	\$38,473,283
Liabilities	<u>\$8,244,140</u>
Net Position	\$30,229,143

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township’s share of these unpaid claims collectible in future years is approximately \$22,000.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 – Risk Management (continued)

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

2016 Contributions to OTARMA
\$ 48,641

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

Note 8 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Township employees other than the certified fire fighters belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

Ohio Police and Fire Retirement System

The Township's certified Fire Fighters belong to the Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25 percent of their wages. The Township contributed to OP&F an amount equal to 24 percent of full-time firefighter members' wages. The Township has paid all contributions required through December 31, 2016.

Social Security

The Township's employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants. Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 9 – Postemployment Benefits

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016. OP&F contributes 0.5 percent to fund these benefits.

Note 10 – Debt

Debt outstanding at December 31, 2016, was as follows:

	Principal	Interest Rate
Ohio Public Works Commission - CG14E	\$35,835	0%

The Ohio Public Works Commission issued a 20-year note (CG14E) in to finance the concrete road replacement phase II. The Ohio Public Works Commission is an interest free loan. The Township makes semi-annual payments of \$2,389 from the General Fund.

Amortization

Amortization of the above debt is scheduled as follows:

Year Ending December 31:	Ohio Public Works Commission Loan - CG14E
2017	\$4,778
2018	4,778
2019	4,778
2020	4,778
2021	4,778
2022-2024	11,945
Total	\$35,835

Note 11 – Contingent Liabilities

The Township is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Township’s financial condition.

Painesville Township
Lake County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 12 – Jointly Governed Organizations

The Township is a member of the Northeast Ohio Public Energy Council (NOPEC). NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code.

NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 200 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each county then elect one person to serve on the fourteen-member NOPEC Board of Directors. The Board oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board. Financial information can be obtained by contacting Ron McVoy, Board Chairman, 31320 Solon Road, Suite 20, Solon, Ohio 44139 or at the website, www.nopecinfo.org.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Painesville Township
Lake County
55 Nye Road
Painesville, OH 44077

To the Township Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the cash balances, receipts and disbursements by fund type of Painesville Township, Lake County, Ohio (the Township) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated June 5, 2018, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings that we consider to be a material weakness. We consider finding 2017-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated June 5, 2018.

Township's Response to Finding

The Township's response to the finding identified in our audit is described in the accompanying Corrective Action Plan. The Township's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
June 5, 2018

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**SCHEDULE OF FINDINGS
December 31, 2017 and 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number 2017-001 - Material Weakness

Fund balance classification and recording of transactions:

The Township recorded numerous transactions incorrectly during 2017 and 2016. The more significant adjustments are as follows:

- Recorded Special Assessment receipts as Charges for Services or Miscellaneous receipts instead of Special Assessments.
- Recorded property taxes revenues as Miscellaneous receipts instead of Property and Other Local Taxes
- Recorded property taxes payments belonging to another political entity as Health instead of Other disbursements.
- In the General Fund, subsequent year appropriations and encumbrances were classified as Unassigned fund balance rather than assigned fund balance.
- Budgetary footnotes were modified due to the Township presenting information that was not final for the budgeted amounts in Note 3 in each year.

Adjustments were made in the financial statements and footnotes to reflect the proper presentation.

Failure to report transactions and fund balances correctly results in the financial statements not being accurately presented. We recommend the Township utilize Governmental Accounting Standards Board Statement No. 54, Auditor of State Bulletin 2011-004, the Ohio Township Handbook, the UAN manual and other Auditor of state guidance to properly classify its transactions and fund balances. Also, we recommend the Fiscal Officer and Board of Trustees review all report compiled by UAN to ensure their accuracy.

Management's Response:

See Corrective Action Plan.

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS – Prepared by Management
December 31, 2017 and 2016**

FINDING NUMBER	FINDING SUMMARY	STATUS	ADDITIONAL INFORMATION
2015-001	Material weakness – Transactions erroneously recorded.	Not Corrected	Repeated as Finding 2017-001

**PAINESVILLE TOWNSHIP
LAKE COUNTY**

**CORRECTIVE ACTION PLAN – Prepared by Management
December 31, 2017 and 2016**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	We will review the UAN manual and the Ohio Township handbook to make sure transactions are properly recorded going forward.	Immediately	Michael Patriarca, Fiscal Officer

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Dave Yost • Auditor of State

PAINESVILLE TOWNSHIP

LAKE 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
SEPTEMBER 6, 2018**