



Dave Yost • Auditor of State



# OHIO AUDITOR OF STATE **KEITH FABER**



January 22, 2019

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 14, 2019. Reports completed prior to that date contain the signature of my predecessor.

Ohio Auditor of State

A handwritten signature in cursive script that reads "Keith Faber".



**ROCHESTER TOWNSHIP  
LORAIN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Rochester Township  
Lorain County  
52185 Griggs Road  
Wellington, Ohio 44090

To the Board of Trustees:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Rochester Township, Lorain 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 preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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

As described in Note 2 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section

117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

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

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

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of Rochester Township, Lorain County 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 January 3, 2019, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



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

January 3, 2019



**Rochester Township**  
*Lorain County, Ohio*  
*Combined Statement of Receipts, 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)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$ 16,624	\$ 71,083	\$ 87,707
Licenses, Permits and Fees	6,709	2,325	9,034
Intergovernmental	22,649	120,012	142,661
Miscellaneous	6,724	-	6,724
<i>Total Cash Receipts</i>	<u>52,706</u>	<u>193,420</u>	<u>246,126</u>
<b>Cash Disbursements</b>			
Current:			
General Government	62,363	-	62,363
Public Safety	73	28,975	29,048
Public Works	-	90,009	90,009
Health	1,037	1,386	2,423
Capital Outlay	-	8,710	8,710
<i>Total Cash Disbursements</i>	<u>63,473</u>	<u>129,080</u>	<u>192,553</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(10,767)</u>	<u>64,340</u>	<u>53,573</u>
<b>Other Financing Receipts (Disbursements)</b>			
Other Financing Sources	169	-	169
<i>Total Other Financing Receipts (Disbursements)</i>	<u>169</u>	<u>-</u>	<u>169</u>
Special Item	600	-	600
<i>Net Change in Fund Cash Balances</i>	(9,998)	64,340	54,342
<i>Fund Cash Balances, January 1</i>	<u>30,279</u>	<u>84,851</u>	<u>115,130</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	-	149,191	149,191
Assigned	11,421	-	11,421
Unassigned (Deficit)	8,860	-	8,860
<i>Fund Cash Balances, December 31</i>	<u>\$ 20,281</u>	<u>\$ 149,191</u>	<u>\$ 169,472</u>

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

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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**Note 1 – Reporting Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Rochester 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 services for general government, public safety, public works, and health, which comprise of road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the South Lorain County Ambulance Service to provide ambulance services. The Township has a Volunteer Fire Department.

***Public Entity Risk Pool***

The Township participates in a public entity risk pool. Note 6 to the financial statements provides additional information for this entity. 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. The Township's management believes these financial statements present all activities for which the Township is financially accountable.

**Note 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

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

***Fund Accounting***

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

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

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

***Gasoline Tax Fund*** The gas tax fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township.

***Road and Bridge Fund*** This fund accounts for property tax revenues for construction, maintenance and repair of Township roads and bridges.

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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***Fire Department & EMS Special Levy Fund*** The Special levy fund accounts for and reports property tax receipts for operation of the Rochester Volunteer Fire Department and the provision of emergency medical services.

***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 fund, function or object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. 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 canceled, and reappropriated in the subsequent year.

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 did not own any investments as assets in 2017.

***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.

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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***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.

***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 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$54,499	\$53,475	(\$1,024)
Special Revenue	171,321	193,420	22,099
Total	\$225,820	\$246,895	\$21,075

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$74,000	\$63,473	\$10,527
Motor Vehicle	168,000	129,080	38,920
Total	\$242,000	\$192,553	\$49,447

**Note 4 – Deposits**

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

Demand deposits	2017 \$169,472
<b>Total deposits</b>	<b>\$169,472</b>

***Deposits***

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

**Note 5 – Property Taxes**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction 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.

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

**Note 6 – Risk Management**

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

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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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.

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.

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

At December 31, 2017 the liabilities above include approximately \$8 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 \$5,000

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

<b><u>2017 Contributions to OTARMA</u></b>
\$10,491

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

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2017*

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the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**Note 7 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 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.

**Note 8 – Postemployment Benefits**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. 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.

**Note 9 – Contingent Liabilities**

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

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

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$ 16,308	\$ 69,367	\$ 85,675
Charges for Services	120	-	120
Licenses, Permits and Fees	5,045	4,151	9,196
Intergovernmental	21,364	99,713	121,077
Miscellaneous	1,838	-	1,838
<i>Total Cash Receipts</i>	<u>44,675</u>	<u>173,231</u>	<u>217,906</u>
<b>Cash Disbursements</b>			
Current:			
General Government	62,943	-	62,943
Public Safety	-	21,257	21,257
Public Works	-	107,970	107,970
Health	2,179	639	2,818
Capital Outlay	-	5,301	5,301
<i>Total Cash Disbursements</i>	<u>65,122</u>	<u>135,167</u>	<u>200,289</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(20,447)</u>	<u>38,064</u>	<u>17,617</u>
<i>Net Change in Fund Cash Balances</i>	(20,447)	38,064	17,617
<i>Fund Cash Balances, January 1</i>	<u>50,726</u>	<u>46,787</u>	<u>97,513</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	-	84,851	84,851
Assigned	5,501	-	5,501
Unassigned (Deficit)	24,778	-	24,778
<i>Fund Cash Balances, December 31</i>	<u>\$ 30,279</u>	<u>\$ 84,851</u>	<u>\$ 115,130</u>

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

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 1 – Reporting Entity**

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***Public Entity Risk Pool***

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**Note 2 – Summary of Significant Accounting Policies**

***Basis of Presentation***

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

***Fund Accounting***

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**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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***Fire Department & EMS Special Levy Fund*** The Special levy fund accounts for and reports property tax receipts for operation of the Rochester Volunteer Fire Department and the provision of emergency medical services.

***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 fund, function or object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. 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 canceled, and reappropriated in the subsequent year.

A summary of 2016 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 did not own any investments as assets in 2016.

***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.

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

***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.

***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 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$53,877	\$44,675	(\$9,202)
Special Revenue	170,524	173,231	2,707
Total	\$224,401	\$217,906	(\$6,495)

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$74,000	\$65,122	\$8,878
Special Revenue	166,000	135,167	30,833
Total	\$240,000	\$200,289	\$39,711

**Note 4 – Deposits**

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

Demand deposits	2016 \$115,130
<b>Total deposits</b>	<b>\$115,130</b>

***Deposits***

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

**Note 5 – Property Taxes**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable non-business, owner occupancy, and homestead exemption credits and/or homestead and rollback deductions. The financial statements include these credits and/or deduction 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.

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

**Note 6 – Risk Management**

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.

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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.

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

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$5,000

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

<b><u>2016 Contributions to OTARMA</u></b>
\$10,573

**Rochester Township**  
*Lorain County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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

**Note 7 – Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10 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.

**Note 8 – Postemployment Benefits**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. 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 2016.

**Note 9 – Contingent Liabilities**

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

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# Dave Yost • Auditor of State

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

Rochester Township  
Lorain County  
52185 Griggs Road  
Wellington, Ohio 44090

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of Rochester Township, Lorain County, (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 January 3, 2019 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2017-001 and 2017-002 to be material weaknesses.

***Compliance and Other Matters***

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

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

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not subject the Township's responses to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



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

January 3, 2019

**ROCHESTER TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2017 AND 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**1. Trustee Time and Effort Certifications**

<b>Finding Number</b>	<b>2017-001</b>
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**Noncompliance and Material Weakness**

**Ohio Rev. Code § 505.24(D)** provides Townships with the ability to compensate Township Trustees by one of two methods. The per diem method requires that the Board of Township Trustees pass a resolution creating a method by which each member of the Board shall periodically notify the Township Fiscal Officer of the number of days spent in the service of the Township and the kinds of services rendered on those days. The Township, then, shall pay the Trustee compensation from the Township General Fund or from other Township funds in such proportions as the kinds of services performed may require. The second method of compensation allows the Township, by unanimous vote, to pay the Township Trustees an annual salary that may not exceed the maximum amount detailed in statute. This annual salary is paid in equal monthly installments, and may be paid from the Township General Fund or from other Township funds in such proportions as the Board may specify by resolution. Where a Township seeks to compensate from funds other than the General Fund, however, the Township must be able to demonstrate that the expenditures from the fund are consistent with the purpose of the fund and in proportion to the amount of time spent in the service of such fund.

The Township passed a resolution at the beginning of each fiscal year stating that the Township Trustees may be paid out of the General Fund and the Road and Bridge Fund. In 2016, the Township paid the Trustee's \$11,434 from the Gas Tax Fund without having appropriate supporting documentation or certifications. In 2017, the Township paid the Trustee's \$11,470 from the Gas Tax Fund without having appropriate supporting documentation or certifications.

The Township's management stated that approving a resolution was sufficient per guidance from the prior audit.

Each Township Trustee that is compensated from funds other than the General Fund must complete a certification prior to receiving his/her pay for that pay period. The certification must be done individually, but is not required to be notarized. The certification is not required to be a time log. Rather, all that is required is a statement detailing the percentage of time that the Trustee spent during that pay period providing services related to each fund to be charged. Without the required support, the expenditures are not considered allowable and fund balances will be adjusted. This could potentially cause negative fund balances, put the Township in an adverse situation with potential budgetary violations, and cause a depleted General Fund balance.

**ROCHESTER TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2017 AND 2016  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**1. Trustee Time and Effort Certifications (Continued)**

<b>Finding Number</b>	<b>2017-001</b>
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**Noncompliance and Material Weakness (Continued)**

The Township management should ensure they maintain supporting documentation that demonstrates the expenditures from the fund are consistent with the purpose of the fund and in proportion to the amount of time spent in the service of such fund. Documentation should consist of a certification detailing the percentage of time that the Trustee spent during that pay period providing services related to each fund to be charged.

**Official's Response:** There was a miscommunication in the past audits and this will be addressed with the Trustees and looked into for the future.

**2. Financial Reporting**

<b>Finding Number</b>	<b>2017-002</b>
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**Material Weakness**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

The following weaknesses and subsequent corrections were made to the financial statements, and where applicable, the Township's accounting records by Management:

- The Township improperly classified subsequent year appropriations to the unassigned fund balance in the General Fund, when the amount should have been classified to the assigned fund balance. In 2017, \$11,421 was improperly classified to the unassigned General Fund balance. In 2016, \$5,501 was improperly classified to the unassigned General Fund balance.

**ROCHESTER TOWNSHIP  
LORAIN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2017 AND 2016  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**2. Financial Reporting (Continued)**

<b>Finding Number</b>	<b>2017-002</b>
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**Material Weakness (Continued)**

- The Township overstated property taxes and tax collection fees by gross amounts received in homestead and rollback. General Fund property taxes and tax collection fees were overstated by \$2,437 in 2017 and \$2,436 in 2016. Special Revenue Fund property taxes and tax collection fees were overstated by \$10,137 in 2017 and \$10,107 in 2016.
- Homestead and rollback amounts were improperly posted at net to the General Fund instead of allocating a proportionate amount of the gross amount and its associated collection fee to the General Fund and the other Special Revenue Funds that receives property tax revenue. The General Fund cash balance was overstated from homestead and rollback amounts by \$10,085 in 2017 and \$9,999 in 2016.
- The Township improperly classified miscellaneous revenue as intergovernmental revenue in the General Fund overstating intergovernmental revenue by \$3,442 in 2017 and \$1,838 in 2016.
- In 2017, the Township received a \$12,300 Fire Department Equipment grant from the Ohio Department of Commerce on behalf of the Rochester Volunteer Fireman's Association. The Township sent the check they received to the Rochester Volunteer Fireman's Association but the Township did not deposit the grant nor record the grant and a subsequent credit of funds in its ledgers and financial statement. Intergovernmental revenue and public safety disbursements in the Special Revenue Fund were both understated by \$12,300.

The amounts were incorrectly classified because there was an oversight on the Township management's part and lack of understanding of GASB 54 fund balance classification.

Failure to accurately classify financial statement transactions diminishes the reliability of the financial data at year-end.

We recommend the Township consult Auditor of State Bulletins, the Ohio Township Handbook or contact the appropriate source for guidance if they have any uncertainty when classifying receipts and fund balance. Also, the Township should evaluate its methods for posting financial transactions to help ensure the amounts are properly recorded on the Township's financial statements.

**ROCHESTER TOWNSHIP  
LORAIN COUNTY  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2017 AND 2016  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**2. Financial Reporting (Continued)**

<b>Finding Number</b>	<b>2017-002</b>
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**Material Weakness (Continued)**

**Official's Response:** This is noted by the Fiscal Officer and will pay more attention to posting receipts in the future.

**ROCHESTER TOWNSHIP  
LORAIN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2017 AND 2016**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2015-001	Township receipts were not posted to accurate classifications based on the source of the receipt.	Not Corrected	Reissued as Finding 2017-002.

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OHIO AUDITOR OF STATE  
**KEITH FABER**



**ROCHESTER 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  
JANUARY 22, 2019**