

EATON TOWNSHIP
LORAIN COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2017 and 2016





Dave Yost • Auditor of State

Township Trustees
Eaton Township
12043 Avon-Belden Road
Grafton, Ohio 44044

We have reviewed the *Independent Auditor's Report* of Eaton Township, Lorain 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. Eaton 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 23, 2018

This page intentionally left blank.

**EATON TOWNSHIP
LORAIN COUNTY
Audit Report
For the Years Ended December 31, 2017 and 2016**

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditors' Report	1-2
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	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - All Fiduciary Fund Types - For the Year Ended December 31, 2017	4
Notes to the Financial Statements – For the Year Ended December 31, 2017.....	5-13
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	14
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - All Fiduciary Fund Types - For the Year Ended December 31, 2016	15
Notes to the Financial Statements – For the Year Ended December 31, 2016.....	16-24
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 <i>Government Auditing Standards</i>	25-26
Schedule of Findings.....	27-29
Prepared by Management:	
Corrective Action Plan.....	30

This page intentionally left blank.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

INDEPENDENT AUDITORS' REPORT

Eaton Township
Lorain County
12043 Avon-Belden Road
Grafton, Ohio 44044

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 Eaton 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 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 Eaton Township, Lorain 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

**EATON TOWNSHIP
LORAIN 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	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$ 208,845	\$ 566,601	-	\$ 775,446
Charges for Services	-	117,209	-	117,209
Licenses, Permits and Fees	116,068	21,388	-	137,456
Fines and Forfeitures	2,056	-	-	2,056
Intergovernmental	179,999	177,767	13,925	371,691
Special Assessments	-	9,600	-	9,600
Earnings on Investments	10,652	1,383	-	12,035
Miscellaneous	32,460	29,751	-	62,211
<i>Total Cash Receipts</i>	<u>550,080</u>	<u>923,699</u>	<u>13,925</u>	<u>1,487,704</u>
Cash Disbursements				
Current:				
General Government	284,749	418	-	285,167
Public Safety	-	351,978	-	351,978
Public Works	300,113	328,892	48,271	677,276
Health	20,204	27,880	-	48,084
Conservation-Recreation	5,340	1,632	-	6,972
Other	9,555	544	-	10,099
Capital Outlay	64,827	14,251	90,831	169,909
Debt Service:				
Principal Retirement	-	9,074	-	9,074
<i>Total Cash Disbursements</i>	<u>684,788</u>	<u>734,669</u>	<u>139,102</u>	<u>1,558,559</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(134,708)	189,030	(125,177)	(70,855)
Other Financing Receipts (Disbursements)				
Other Debt Proceeds	-	-	76,906	76,906
<i>Total Other Financing Receipts (Disbursements)</i>	<u>-</u>	<u>-</u>	<u>76,906</u>	<u>76,906</u>
<i>Net Change in Fund Cash Balances</i>	(134,708)	189,030	(48,271)	6,051
<i>Fund Cash Balances, January 1</i>	<u>568,049</u>	<u>855,314</u>	<u>506,666</u>	<u>1,930,029</u>
Fund Cash Balances, December 31				
Restricted	-	1,044,344	458,395	1,502,739
Assigned	137,434	-	-	137,434
Unassigned	295,907	-	-	295,907
<i>Fund Cash Balances, December 31</i>	<u>\$ 433,341</u>	<u>\$ 1,044,344</u>	<u>\$ 458,395</u>	<u>\$ 1,936,080</u>

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

**EATON TOWNSHIP
LORAIN COUNTY**

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

	Fiduciary Fund Types
	Agency
Operating Cash Disbursements	
Other	\$ 330
<i>Total Operating Cash Disbursements</i>	330
<i>Operating Income (Loss)</i>	(330)
Non-Operating Receipts (Disbursements)	
Miscellaneous Receipts	328
<i>Total Non-Operating Receipts (Disbursements)</i>	328
<i>Net Change in Fund Cash Balances</i>	(2)
<i>Fund Cash Balances, January 1</i>	2,804
<i>Fund Cash Balances, December 31</i>	\$ 2,802

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

Eaton Township
Lorain 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 the Eaton Township, Lorain County, Ohio (the Township), as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township also has an elected Township Fiscal Officer. The Township provides general government services, maintenance of township roads and bridges and cemetery maintenance. The Township has a Fire & Rescue Department for fire protection that provides fire and emergency medical services. These services are performed by a voluntary force. Police protection is provided by the Lorain County Sheriff.

Public Entity Risk Pool

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a risk sharing pool available to Ohio Townships. Note 6 to the financial statements provides additional information for this entity.

Jointly Governed Organization

The Township participates in a jointly governed organization with the City of Elyria. The Township contracted with the city of Elyria to form the Eaton Northwestern Professional Business Joint Economic Development District (JEDD). Note 10 to the financial statements provides additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Township’s financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a statement of receipts, disbursements and changes in fund balance (regulatory cash basis) for the fiduciary fund 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 to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

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

Note 2 - Summary of Significant Accounting Policies (continued)

Road and Bridge Fund The road and bridge fund accounts for and reports receipts of property tax money for the purpose of constructing, maintaining and repairing Township roads and bridges.

Fire and Ambulance Levy Fund The fire and ambulance levy fund accounts for and reports the receipt of property tax money for the purpose of providing fire protection and emergency medical services.

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

Permanent Improvement Fund The permanent improvement fund accounts for receipts from other sources restricted for large improvements within the Township.

Fiduciary Funds Fiduciary funds include agency funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Township disburses these funds as directed by the individual, organization or other government. The Township's agency fund accounts for money held on behalf of a Commercial Building.

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 disbursements 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 disbursements (that is, disbursements and encumbrances) may not exceed appropriations at the object level for all funds 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 cash as of January 1. The County Budget Commission must approve estimated resources.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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 re-appropriated.

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.

Capital Assets

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

Accumulated Leave

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

Fund Balance

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

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

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

Committed The 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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Assigned Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by the 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.

Note 3 – Budgetary Activity

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

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 424,384	\$ 550,080	\$ 125,696
Special Revenue	899,579	923,699	24,120
Capital Projects	90,831	90,831	-

2017 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 838,998	\$ 684,788	\$ 154,210
Special Revenue	1,288,085	734,669	553,416
Capital Projects	140,831	139,102	1,729

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

Note 4 – Deposits and Investments

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

	2017
Demand deposits	\$ 304,077
StarOhio Plus	1,634,805
Total deposits	<u>\$ 1,938,882</u>

Deposits

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

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.

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), 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.

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

Note 6 - Risk Management (continued)

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.

	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 \$10,000.

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> \$23,465
--

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.

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

Note 7 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

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

Social Security

The Township's part time firefighters contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2% of their gross salaries. The Township contributed an amount equal to 6.2% 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% during calendar year 2017.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission (OPWC) Loans	\$ 335,649	0%

In 2009, the Township received an interest-free loan from the Ohio Public Works Commission (OPWC) totaling \$85,331 for the purpose of improving South Reed Road. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on July 1, 2028.

In 2010, the Township received an interest-free loan from the OPWC totaling \$19,324 for the purpose of improving the Eaton Estate Storm Sewer. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on July 1, 2029.

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

Note 9 – Debt (continued)

In 2011, the Township received an interest-free loan from the OPWC totaling \$30,213 for the purpose of improving the Eaton Estate Storm Sewer, Phase II. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on January 1, 2031.

In 2013, the Township received an interest-free loan from the OPWC totaling \$85,211 for the purpose of completing the Marion/Henwill Road Project. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on July 1, 2032.

In 2013, the Township received an interest-free loan from the OPWC totaling \$12,566 for the purpose of improving the National Drive/Elm Road Storm Sewer. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on January 1, 2033.

In 2015, the Township received an interest-free loan from the OPWC totaling \$69,375 for the purpose of completing Phase I of the Deer Run Drive Improvement project. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on January 1, 2035.

In 2017, the Township received an additional interest-free loan from the OPWC totaling \$13,925 for the purpose of completing Phase III of the Flint Ridge Improvement project. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on January 1, 2037.

In 2017, the Township received an interest-free loan from the OPWC totaling \$62,981 for the purpose of completing Phase IV of the Flint Ridge Drive Improvement project. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on January 1, 2038.

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

Note 9 – Debt (continued)

Amortization

Amortization of the above debt is scheduled as follows:

Year ending December 31:	<u>OPWC Loans</u>
2018	\$ 19,722
2019	21,296
2020	21,296
2021	21,296
2022	21,296
2023-2027	106,481
2028-2032	84,249
2033-2037	38,439
2038	1,574
Total	<u>\$ 335,649</u>

Note 10 – Jointly Governed Organizations

In 2005, the Township entered into a contract with the City of Elyria to form the Eaton Northwestern Professional Business Joint Economic Development District (JEDD). It is entirely located in Eaton Township, and its primary purpose is to allow property owners in the JEDD to connect into the City of Elyria’s sanitary sewer system and direct flow of sanitary sewage to sanitary sewer facilities of the City. The City is responsible for the collection, enforcement and administration of the income tax. The gross income tax, less collection expenses, shall be distributed eighty percent (80%) to the City and twenty percent (20%) to the Township. Financial information can be obtained by contacting Ted Pileski, Elyria Finance Director, 131 Court Street, Elyria, Ohio 44035.

Note 11- Contingent Liabilities

The Township may be a defendant in lawsuits. Although management cannot presently determine the outcome of any suit, management believes that the resolution of any matter will not materially adversely affect the Township’s financial condition.

**EATON TOWNSHIP
LORAIN 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	\$ 213,328	\$ 575,565	-	\$ 788,893
Charges for Services	-	108,990	-	108,990
Licenses, Permits and Fees	113,356	35,018	-	148,374
Fines and Forfeitures	540	-	-	540
Intergovernmental	114,564	212,136	\$ 42,450	369,150
Special Assessments	12	6,055	-	6,067
Earnings on Investments	6,208	1,468	-	7,676
Miscellaneous	13,159	34,403	84	47,646
<i>Total Cash Receipts</i>	<u>461,167</u>	<u>973,635</u>	<u>42,534</u>	<u>1,477,336</u>
Cash Disbursements				
Current:				
General Government	285,307	1,156	-	286,463
Public Safety	-	461,894	6,335	468,229
Public Works	69,160	412,335	197,817	679,312
Health	19,094	42,470	-	61,564
Conservation-Recreation	6,668	12,023	-	18,691
Other	11,283	-	-	11,283
Capital Outlay	-	373,484	586,219	959,703
Debt Service:				
Principal Retirement	-	15,101	-	15,101
<i>Total Cash Disbursements</i>	<u>391,512</u>	<u>1,318,463</u>	<u>790,371</u>	<u>2,500,346</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	69,655	(344,828)	(747,837)	(1,023,010)
Other Financing Receipts (Disbursements)				
Other Debt Proceeds	-	-	46,996	46,996
Sale of Capital Assets	-	17,305	-	17,305
<i>Total Other Financing Receipts (Disbursements)</i>	<u>-</u>	<u>17,305</u>	<u>46,996</u>	<u>64,301</u>
<i>Net Change in Fund Cash Balances</i>	69,655	(327,523)	(700,841)	(958,709)
<i>Fund Cash Balances, January 1</i>	<u>498,394</u>	<u>1,182,837</u>	<u>1,207,507</u>	<u>2,888,738</u>
Fund Cash Balances, December 31				
Restricted	-	855,314	506,666	1,361,980
Assigned	442,785	-	-	442,785
Unassigned	125,264	-	-	125,264
<i>Fund Cash Balances, December 31</i>	<u>\$ 568,049</u>	<u>\$ 855,314</u>	<u>\$ 506,666</u>	<u>\$ 1,930,029</u>

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

**EATON TOWNSHIP
LORAIN COUNTY**

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

	Fiduciary Fund Types
	Agency
Operating Cash Disbursements	
Other	\$ 401
<i>Total Operating Cash Disbursements</i>	401
<i>Operating Income (Loss)</i>	(401)
Non-Operating Receipts (Disbursements)	
Miscellaneous Receipts	373
<i>Total Non-Operating Receipts (Disbursements)</i>	373
<i>Net Change in Fund Cash Balances</i>	(28)
<i>Fund Cash Balances, January 1</i>	2,832
<i>Fund Cash Balances, December 31</i>	\$ 2,804

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

Eaton Township
Lorain 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 the Eaton Township, Lorain County, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township also has an elected Township Fiscal Officer. The Township provides general government services, maintenance of township roads and bridges and cemetery maintenance. The Township has a Fire & Rescue Department for fire protection that provides fire and emergency medical services. These services are performed by a voluntary force. Police protection is provided by the Lorain County Sheriff.

Public Entity Risk Pool

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a risk sharing pool available to Ohio Townships. Note 7 to the financial statements provides additional information for this entity.

Jointly Governed Organizations

The Township participates in a jointly governed organization with the City of Elyria. The Township contracted with the city of Elyria to form the Eaton Northwestern Professional Business Joint Economic Development District (JEDD). Note 11 to the financial statements provides additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Township’s financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balance (regulatory cash basis) for the fiduciary fund 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 to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Fund:

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

Note 2 - Summary of Significant Accounting Policies (continued)

Fire and Ambulance Levy Fund The fire and ambulance levy fund accounts for and reports the receipt of property tax money for the purpose of providing fire protection and emergency medical services.

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 funds:

Permanent Improvement Fund The permanent improvement fund accounts for and reports receipts from various sources restricted for large improvements within the Township.

Miscellaneous Capital Projects Fund The miscellaneous capital projects fund accounts for and reports receipts from various sources restricted for large improvements within the Township.

Fiduciary Funds Fiduciary funds include agency funds. Agency Funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Township disburses these funds as directed by the individual, organization or other government. The Township's agency fund accounts for money held on behalf of a Commercial Building.

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 disbursements 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 disbursements (that is, disbursements and encumbrances) may not exceed appropriations at the object level for all funds 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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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 re-appropriated.

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.

Capital Assets

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

Accumulated Leave

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

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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

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.

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 – Compliance

Contrary to Ohio law, appropriations exceeded estimated resources in the Fire & EMS and the Ambulance & Fire Inside Mill fund by \$286,180 and \$196,542, respectively for the year ended December 31, 2016. Contrary to Ohio Revised Code 5705.41 (D) the Township did not encumber 41% of its purchase.

Note 4 – Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 369,738	\$ 461,167	\$ 91,429
Special Revenue	915,128	990,940	75,812
Capital Projects	89,446	89,530	84

2016 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 501,270	\$ 419,683	\$ 81,587
Special Revenue	1,666,683	1,331,184	335,499
Capital Projects	861,516	790,371	71,145

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

Note 5 – Deposits and Investments

The Township maintains a deposit and investment 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:

	2016
Demand deposits	\$ 310,064
StarOhio Plus	1,622,769
Total deposits	\$ 1,932,833

Deposits

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

Note 6 – 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.

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

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, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Note 7 - Risk Management (continued)

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 \$11,000.

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>Contributions to OTARMA</u>
<u>2016</u>
\$23,631

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.

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

Note 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

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

Social Security

The Township's part time firefighters contribute to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

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

Note 9 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

Note 10 – Debt

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission (OPWC) Loans	\$ 267,817	0%

In 2009, the Township received an interest-free loan from the Ohio Public Works Commission (OPWC) totaling \$85,331 for the purpose of improving South Reed Road. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on July 1, 2028.

In 2010, the Township received an interest-free loan from the OPWC totaling \$19,324 for the purpose of improving the Eaton Estate Storm Sewer. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on July 1, 2029.

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

Note 10 – Debt (continued)

In 2011, the Township received an interest-free loan from the OPWC totaling \$30,213 for the purpose of improving the Eaton Estate Storm Sewer, Phase II. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on January 1, 2031.

In 2013, the Township received an interest-free loan from the OPWC totaling \$85,211 for the purpose of completing the Marion/Henwill Road Project. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on July 1, 2032.

In 2013, the Township received an interest-free loan from the OPWC totaling \$12,566 for the purpose of improving the National Drive/Elm Road Storm Sewer. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on January 1, 2033.

In 2015, the Township received an interest-free loan from the OPWC totaling \$69,375 for the purpose of completing Phase I of the Deer Run Drive Improvement project. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on January 1, 2035.

In 2016, the Township received an interest-free loan from the OPWC totaling \$46,996 for the purpose of completing Phase III of the Flint Ridge Improvement project. The Township intends to repay this loan from the proceeds of tax monies levied by the Township for the purpose of road and bridge maintenance and the proceeds of the gasoline tax and permissive motor vehicle license received from the County Auditor. The loan matures on January 1, 2036. As of December 31, 2016, the project was ongoing and no amortization schedule available.

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

Note 10 – Debt (continued)

Amortization

Amortization of the above debt is scheduled as follows:

Year ending December 31:	<u>OPWC Loans</u>
2017	\$ 15,101
2018	15,101
2019	15,101
2020	15,101
2021	15,101
2022-2026	75,505
2027-2031	56,646
2032-2036	13,165
Total	<u>\$ 220,821</u>

Note 11 – Jointly Governed Organizations

In 2005, the Township entered into a contract with the City of Elyria to form the Eaton Northwestern Professional Business Joint Economic Development District (JEDD). It is entirely located in Eaton Township, and its primary purpose is to allow property owners in the JEDD to connect into the City of Elyria’s sanitary sewer system and direct flow of sanitary sewage to sanitary sewer facilities of the City. The City is responsible for the collection, enforcement and administration of the income tax. The gross income tax, less collection expenses, shall be distributed eighty percent (80%) to the City and twenty percent (20%) to the Township.

Note 12- Contingent Liabilities

The Township may be defendant in lawsuits. Although management cannot presently determine the outcome of any suit, management believes that the resolution of any matter will not materially adversely affect the Township’s financial condition.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

Eaton Township
Lorain County
12043 Avon-Belden Road
Grafton, Ohio 44044

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 Eaton Township, Lorain 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2017-002 to 2017-004.

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 Responses to Findings

The Township's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The Township's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

**EATON TOWNSHIP
LORAIN COUNTY**

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

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

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 payments of Principal as Interest and Fiscal Charges.
- Recorded various grant revenues as Miscellaneous receipts instead of Intergovernmental receipts.
- Recorded the sale of capital assets as Miscellaneous receipts instead of Sale of Capital Assets.
- Did not record OPWC direct payments to vendors thus understating the Township's Capital Outlay, Intergovernmental receipts, and Proceeds of Loans.
- Recorded the sale of permits as Intergovernmental receipts instead of Licenses, Permits and Fees.
- Did not calculate subsequent year appropriations and classified encumbrances as Unassigned fund balance rather than assigned fund balance.
- Budgetary footnotes were modified due to the presenting information that was not final for the budgeted amounts in Note 3 in 2017 and Note 4 in 2016.

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.

Finding Number 2017-002 - Noncompliance

Income tax and OPERS late payments and penalties

Internal Revenue Code (IRC) 26 U.S.C. §3401 through §3406 requires the Township to withhold federal, state, and local income and employment-related taxes. It also requires the Township to report those tax matters to the appropriate tax authorities and to the recipients.

The Township withheld federal and state taxes from its employees, including the elected officials in 2016 and 2017. However, the entire 2016 withholdings weren't paid until March 2017. Further, the Township did not file the required 2016 quarterly federal tax documents (Form 941) in a timely manner. As a result, the Township was assessed interest and penalties.

**EATON TOWNSHIP
LORAIN COUNTY**

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

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

Finding Number 2017-002 – Noncompliance (continued)

Income tax and OPERS late payments and penalties (continued)

In addition, retirement contributions withheld but the Township did not submit the employee and employer amounts to OPERS in 2016 on the basis as required by Ohio Rev. Code Sections 145.01, 145.03, 145.47, and 145.48. This resulted in the Township being assessed fines and interest.

As of the end of the date of this report all amounts have now been remitted including all penalties and interests. These are unnecessary expenditures and should be avoided by paying invoices and taxes/withholdings when they become due.

Management’s Response:

See Corrective Action Plan.

Finding Number 2017-003 - Noncompliance

Fiscal Officer’s Certification of Expenditures

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making a contract or ordering any expenditure of money unless a certificate signed by a fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

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

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

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

**EATON TOWNSHIP
LORAIN COUNTY**

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

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

Finding Number 2017-003 - Noncompliance (continued)

Fiscal Officer's Certification of Expenditures (continued)

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

The Township did not make the proper certification of funds for 13 out of 42 items tested for 2016 and 21 out of 41 items tested for 2017.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's expenditures exceeding budgetary spending limitations, we recommend that the Township certify expenditures prior to incurring the liability. This will assist in keeping adequate controls over disbursements and encumbrances.

Management's Response:

See Corrective Action Plan.

Finding Number 2017-004 – Noncompliance

Appropriations Exceed Estimated Resources

Ohio Rev. Code § 5705.39 prohibits appropriations from exceeding estimated resources. For the year ended December 31, 2016, the Fire & EMS Levy Fund – a Special Revenue Fund and the Ambulance & Fire Inside Mill Fund – a Capital Project Fund - had appropriations exceed estimated resources by \$286,180 and \$196,542 respectively.

We recommend that the Township monitor its budgetary information and approve amendments as necessary to prevent appropriations from exceeding estimated resources.

Management Response:

See Corrective Action Plan.

**EATON TOWNSHIP
LORAIN 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	The items of concern were under previous Administration and we are currently having our Funds reviewed quarterly by a Fiscal Officer from another township to be sure that items are properly classified. The Ohio Township Handbook, UAN Manual and Local Government Services are being utilized to avoid these types of errors in the future.	Immediately	Julie Popowski, Fiscal Officer
2017-002	The late filings of payments and quarterly Form 941 was under previous Administration and we have caught up on all late filings along with payments and penalties incurred (that we are aware of). I was not aware that the Ohio State Withholding Tax was due monthly and began to remit the taxes on a monthly basis. We are aware of when these taxes and forms are due and are filing in a timely manner to avoid interest and fines.	Immediately	Julie Popowski, Fiscal Officer
2017-003	The improper certification of funds occurred under the previous Administration. Going forward we are working to resolve this issue by creating Purchase Orders prior to the purchase, Then and Now Certificates, Blanket and Super Blanket Certificates with the approval and Resolution by the Board of Trustees.	Immediately	Julie Popowski, Fiscal Officer
2017-004	Under previous Administration, it is obvious that the Appropriations and Estimated Resources were not regularly monitored. Moving forward we review the Certificate of Estimated Resources and Appropriations on a regular basis and in the event the Appropriations or Estimated Resources need to be increased/decreased then request will be made to our County Auditor.	Immediately	Julie Popowski, Fiscal Officer



Dave Yost • Auditor of State

EATON 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
SEPTEMBER, 6 2018