



OHIO AUDITOR OF STATE  
**KEITH FABER**





HINCKLEY TOWNSHIP  
MEDINA COUNTY

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

Hinckley Township  
Medina County  
1410 Ridge Road  
Hinckley, Ohio 44233

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 Hinckley Township, Medina County, Ohio, (the Township) as of and for the years ended December 31, 2018 and 2017.

### ***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 such 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, 2018 and 2017, 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 Hinckley Township, Medina County, Ohio, as of December 31, 2018 and 2017, and 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 March 9, 2020, 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.



Keith Faber  
Auditor of State

Columbus, Ohio

March 9, 2020

**HINCKLEY TOWNSHIP  
MEDINA COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$454,941	\$2,152,229		\$2,607,170
Licenses, Permits and Fees	95,272	6,623		101,895
Fines and Forfeitures	39,095			39,095
Charges for Services		107,044		107,044
Intergovernmental	211,964	473,358		685,322
Earnings on Investments	35,817	1,567		37,384
Miscellaneous	11,668	64,656		76,324
<i>Total Cash Receipts</i>	<u>848,757</u>	<u>2,805,477</u>		<u>3,654,234</u>
<b>Cash Disbursements</b>				
Current:				
General Government	336,183	38,991		375,174
Public Safety		1,638,580		1,638,580
Public Works	263,059	471,031		734,090
Health		19,915		19,915
Capital Outlay	47,083	346,984	\$301,747	695,814
<i>Total Cash Disbursements</i>	<u>646,325</u>	<u>2,515,501</u>	<u>301,747</u>	<u>3,463,573</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>202,432</u>	<u>289,976</u>	<u>(301,747)</u>	<u>190,661</u>
<b>Other Financing Sources</b>				
Loan Proceeds			301,747	301,747
<i>Net Change in Fund Cash Balances</i>	202,432	289,976	0	492,408
<i>Fund Cash Balances, January 1</i>	<u>1,194,155</u>	<u>2,826,065</u>	<u>0</u>	<u>4,020,220</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		3,116,041		3,116,041
Assigned	710,372			710,372
Unassigned	686,215			686,215
<i>Fund Cash Balances, December 31</i>	<u>\$1,396,587</u>	<u>\$3,116,041</u>	<u>\$0</u>	<u>\$4,512,628</u>

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

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2018*

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**Note 1 – Reporting Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Hinckley Township, Medina County, Ohio, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection, emergency medical services, and police services.

***Public Entity Risk Pool***

The Township belongs to 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.

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 (cash basis) for all governmental fund types which is 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:

***Police Special Levy Fund*** The police special levy fund accounts for and reports receipts of property tax money and grants for the purpose of providing police protection services to the citizens of the Township.



**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2018*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***Capital Project Funds***

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

***Ohio Public Works Commission*** The Township received a loan from the state for capital improvements. The proceeds are restricted for capital improvement.

***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 Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary 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 of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

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

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

A summary of 2018 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.

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2018*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

***Capital Assets***

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

***Accumulated Leave***

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

***Fund Balance***

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

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

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

***Committed*** 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.

***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 Township Trustees or a Township official delegated that authority by resolution, or by State Statute. The Board may also assign fund balance 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.

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2018*

**Note 2 – Summary of Significant Accounting Policies (continued)**

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, 2018 follows:

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 637,417	\$ 848,757	\$ 211,340
Special Revenue	2,641,100	2,805,477	164,377
Capital Projects	0	301,747	301,747

2018 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 1,812,093	\$ 668,878	\$ 1,143,215
Special Revenue	4,625,699	2,601,787	2,023,912
Capital Projects	301,747	301,747	0

**Note 4 – Deposits and Investments**

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

	<b><u>2018</u></b>
Demand deposits	\$ 1,915,946
Certificates of deposit	1,540,121
STAR Ohio Plus	<u>1,032,900</u>
Total deposits	4,488,967
STAR Ohio	<u>23,661</u>
Total investments	<u>23,661</u>
<b>Total deposits and investments</b>	<b><u><u>\$ 4,512,628</u></u></b>

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2018*

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**Note 4 – Deposits and Investments (continued)**

***Deposits***

Deposits are insured by the Federal Depository Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

***Investments***

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

**Note 5 – Property Taxes**

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

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 is a member of the Ohio Township Association Risk Management Authority (OTARMA). The Pool assumes the risk of loss up to the limits of the Township's policy. The Pool covers the following risks:

- General liability and casualty
- Public official's liability
- Cyber
- Law enforcement liability
- Automobile liability
- Vehicles
- Property
- Equipment breakdown

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2018*

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**Note 6 - Risk Management (continued)**

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31:

		2018	
Cash and investments	\$	33,097,416	
Actuarial liabilities		7,874,610	

**Note 7 - Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

The Township’s employees, except for certified firefighters, 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, 2018.

***Social Security***

Part-time firefighters, members of the zoning board and board of zoning appeals members 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, 2018

**Note 8 – Postemployment Benefits**

OPERS offers a 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 0% during calendar year 2018.

**Note 9 – Debt**

Debt outstanding at December 31, 2018, was as follows:

	Principal	Interest Rate
John Deere Roadside Mower Lease	\$ 73,039	3.5%
OPWC C155V Loan	301,747	0.0%

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2018*

***Lease***

The Township leases a John Deere Roadside Mower under a noncancelable lease. The Township disbursed \$26,098 to pay lease costs for the year ended December 31, 2018.

***Loans***

The Township took out a 20-year, 0.0% interest loan through Ohio Public Works (OPWC) in 2018 to complete a concrete roadway replacement which will be paid out of the General and Road and Bridge funds.

***Amortization***

Amortization of the above debt, including interest, is scheduled as follows:

Year Ending December 31:	John Deere Mower Lease	OPWC Loan #C155V
2019	\$ 26,098	\$ 7,543.68
2020	26,098	15,087.36
2021	26,098	15,087.36
2022	-	15,087.36
2023	-	15,087.36
2024	-	15,087.36
2025 – 2034	-	75,436.80
2030 – 2034	-	75,436.80
2035 – 2039	-	67,893.22
Total	\$ 78,294	\$ 301,747.30

***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.

***Note 10 – 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.

***Note 11 – Subsequent Event***

On June 4, 2019, the Township approved a loan agreement with the Ohio Public Works Commission (OPWC) in the amount of \$419,885 for the Valley Brook Boulevard replacement project.

**HINCKLEY TOWNSHIP  
MEDINA COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (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	\$452,095	\$1,810,924	\$2,263,019
Licenses, Permits and Fees	80,962	11,998	92,960
Fines and Forfeitures	37,303		37,303
Charges for Services		120,316	120,316
Intergovernmental	163,659	421,848	585,507
Earnings on Investments	14,528	83	14,611
Miscellaneous	13,292	54,204	67,496
	<b>761,839</b>	<b>2,419,373</b>	<b>3,181,212</b>
<i>Total Cash Receipts</i>			
<b>Cash Disbursements</b>			
Current:			
General Government	327,858	35,858	363,716
Public Safety		1,606,625	1,606,625
Public Works	190,290	407,463	597,753
Health		21,192	21,192
Capital Outlay	139,243	144,363	283,606
	<b>657,391</b>	<b>2,215,501</b>	<b>2,872,892</b>
<i>Total Cash Disbursements</i>			
<i>Net Change in Fund Cash Balances</i>	<b>104,448</b>	<b>203,872</b>	<b>308,320</b>
<i>Fund Cash Balances, January 1</i>	<b>1,089,707</b>	<b>2,622,193</b>	<b>3,711,900</b>
<b>Fund Cash Balances, December 31</b>			
Restricted		2,826,065	2,826,065
Assigned	1,174,676		1,174,676
Unassigned	19,479		19,479
	<b>\$1,194,155</b>	<b>\$2,826,065</b>	<b>\$4,020,220</b>
<i>Fund Cash Balances, December 31</i>			

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

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2017*

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**Note 1 – Reporting Entity**

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***Public Entity Risk Pool***

The Township belongs to 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.

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 (cash basis) for all governmental fund types which is organized on a fund type basis.

***Fund Accounting***

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***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:

***Police Special Levy Fund*** The police special levy fund accounts for and reports receipts of property tax money and grants for the purpose of providing police protection services to the citizens of the Township.



**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2017*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***Basis of Accounting***

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary 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 of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year-end.

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

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

A summary of 2017 budgetary activity appears in Note 3.

***Deposits and Investments***

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

Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31,2017*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

***Capital Assets***

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

***Accumulated Leave***

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

***Fund Balance***

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

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

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

***Committed*** 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.

***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 Township Trustees or a Township official delegated that authority by resolution, or by State Statute. The Board may also assign fund balance 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.

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2017*

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**Note 2 – Summary of Significant Accounting Policies (continued)**

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 follows:

Fund Type	<u>2017 Budgeted vs. Actual Receipts</u>		Variance
	Budgeted Receipts	Actual Receipts	
General	\$ 648,179	\$ 761,839	\$ 113,660
Special Revenue	2,328,800	2,419,373	90,573

Fund Type	<u>2017 Budgeted vs. Actual Budgetary Basis Disbursements</u>		Variance
	Appropriation Authority	Budgetary Disbursements	
General	\$ 1,722,379	\$ 731,634	\$ 990,745
Special Revenue	4,068,216	2,327,444	1,740,772

**Note 4 – Deposits and Investments**

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

	2017
Demand deposits	\$ 1,460,922
Certificates of deposit	1,523,192
STAR Ohio Plus	1,012,902
Total deposits	3,997,016
STAR Ohio	23,204
Total investments	23,204
<b>Total deposits and investments</b>	<b>\$ 4,020,220</b>

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2017*

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**Note 4 – Deposits and Investments (continued)**

***Deposits***

Deposits are insured by the Federal Depository Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS), or collateralized by the financial institution's public entity deposit pool.

***Investments***

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

**Note 5 – Property Taxes**

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

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 Workers' Compensation.

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

Casualty and Property Coverage

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

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

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2017*

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**Note 6 - Risk Management (continued)**

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017.

	<u>2017</u>
Assets	\$40,010,732
<u>Liabilities</u>	<u>8,675,405</u>
<b>Net Position</b>	<b>\$31,335,267</b>

At December 31, 2016 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 \$25,000.

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> <b>\$57,108</b>
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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***

The Township's employees, except for certified firefighters, 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.

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2017*

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**Note 7 - Defined Benefit Pension Plans (continued)**

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**

Part-time firefighters, members of the zoning board and board of zoning appeals members 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 a 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 0% during calendar year 2017.

**Note 9 – Debt**

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

	<u>Principal</u>	<u>Interest Rate</u>
John Deere Roadside Mower Lease	\$ 97,136	3.5%

**Leases**

The Township leases a John Deere Roadside Mower under a noncancelable lease. The Township disbursed \$26,098 to pay lease costs for the year ended December 31, 2017.

**Amortization**

Amortization of the above debt, including interest, is scheduled as follows:

<u>Year Ending December 31:</u>	<u>John Deere Roadside Mower Lease</u>
2018	\$ 26,098
2019	26,098
2020	26,098
2021	26,098
<b>Total</b>	<b>\$ 104,392</b>

**Hinckley Township**  
*Medina County*  
*Notes to the Financial Statements*  
*for the Year Ended December 31, 2017*

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***Note 10 – 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.

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# OHIO AUDITOR OF STATE KEITH FABER



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NortheastRegion@ohioauditor.gov

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

Hinckley Township  
Medina County  
1410 Ridge Road  
Hinckley, Ohio 44233

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 Hinckley Township, Medina County, Ohio, (the Township) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements and have issued our report thereon dated March 9, 2020 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 2018-001 and 2018-002 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 matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2018-001.

***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 report is not suitable for any other purpose.



Keith Faber  
Auditor of State

Columbus, Ohio

March 9, 2020

**HINCKLEY TOWNSHIP  
MEDINA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2018 AND 2017**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2018-001**

**Noncompliance Finding / Material Weakness – Ohio Public Works Commission Loan**

**Ohio Rev. Code § 5705.42** requires in part, when the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, the amount is deemed appropriated and shall be recorded by the subdivision. Additionally, **Auditor of State Bulletin 2002-004** establishes the requirements for an entity receiving funding from the Ohio Public Works Commission (OPWC) Infrastructure Project. Entities are required to establish a capital projects fund to account for the funding. In the case where monies available from other funds (i.e. General Fund) will be used to meet the local matching requirements, the entity shall transfer these monies into the capital projects fund. The entity should record payments made on its behalf to vendors by OPWC as revenues and expenditures on its financial statements. Additionally, the entity shall appropriate money in the capital projects fund for local matching contributions and OPWC funding (including on-behalf-of payments) and obtain amended certificates of estimated resources to include the grant funding and local matching contributions anticipated to be recorded in the capital projects fund.

In 2018, the Township received a zero-percent interest loan from OPWC in the amount of \$301,747. OPWC made payments directly to the vendor on the Township's behalf, and the Township did not record those payments and corresponding other financing sources in the accounting system or year-end financial statements. The financial statements were adjusted to record capital outlay expense and loan proceeds in the Capital Projects Funds opinion unit to reflect this error.

Additionally, the Township did not update appropriations in their accounting system or obtain an amended certificate of estimated resources for this project.

The Township should ensure procedures are implemented to record all on-behalf-of expenditures and corresponding receipts in their accounting system and the financial statements. The Township should also update appropriations in their accounting system and obtain amended certificates of estimated resources from the County Auditor for OPWC projects.

**Officials' Response:** The Township acknowledges the finding and has addressed the noncompliance issue in its reporting for the 2019 OPWC loan.

## FINDING NUMBER 2018-002

### Material Weakness – Fund Balance and Fund Type Classification

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 Statement (GASB) No. 54** provides revised governmental fund-type and fund balance definitions. Special revenue funds are used to 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 term proceeds of specific revenue sources establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. A government should discontinue reporting a special revenue fund if the resources in the fund are not restricted or committed for a specific purpose, and instead, should report the activity of the fund in the General Fund. **Auditor of State Bulletin 2011- 004** provides additional guidance regarding the implementation of GASB 54, and indicates GASB 54 changes the definitions of governmental funds; therefore, some funds that are maintained for day-to-day accounting purposes may no longer meet the fund type criteria for reporting in the year-end external financial statements. These funds should be presented as part of the General Fund in the year-end financial statements.

The General Fund should also report assigned fund balances for any encumbrances outstanding at fiscal year-end, as well as amounts assigned from subsequent year appropriations, which would be equal to amount of subsequent year's appropriations that exceed the subsequent year's estimated receipts. The residual amount of any fund balance in the General Fund should be classified as unassigned fund balance.

Additionally, agency funds account for activity that is purely custodial in nature, held on-behalf-of another entity or entities, and remitted at a later time.

The following deficiencies were noted relating to fund type and balance classification:

- The Zoning Fund was reported as a special revenue fund on the year-end financial statements for both 2018 and 2017. However, there are no external restrictions or formal commitments from the Trustees regarding the use of the resources in this fund. Therefore, the Zoning Fund activity should have been classified into the General Fund for year-end financial reporting purposes. The financial statements were adjusted by management to remove the Zoning Fund activity from the special revenue funds opinion unit and report the activity in the General Fund.
- In 2018 and 2017, a fund was improperly classified as an agency fund. The fund's resources were not purely custodial in nature and were externally restricted; therefore, the fund should have been classified as a special revenue fund. The financial statements were adjusted by management to report this fund's activity in the special revenue funds opinion unit.
- For 2017, the assigned fund balance in the General Fund was understated. The Township's subsequent year appropriations exceeded estimated receipts that should have been reported as assigned fund balance. The Township also had outstanding encumbrances that should have been reported as assigned fund balance. This error was adjusted to the financial statements by management.

Failure to properly classify funds and fund balances could result in material financial statement errors in the future.

**FINDING NUMBER 2018-002 (Continued)**

The Township should review GASB 54 and Auditor of State Bulletin 2011-004 for proper classification of fund balances and fund types on the year-end financial statements.

**Officials' Response:** The Township acknowledges the finding. In addressing the finding, the Zoning Fund activity for year-end has been reported in the General Fund in subsequent years. The improperly classified Agency Fund, which has been reported for decades, was closed in 2019.

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# OHIO AUDITOR OF STATE KEITH FABER



**HINCKLEY TOWNSHIP**

**MEDINA 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  
MARCH 24, 2020**