



**FARMER TOWNSHIP
DEFIANCE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2000-1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

FARMER TOWNSHIP
DEFIANCE COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Farmer Township
Defiance County
09965 State Route 249
P.O. Box 44
Farmer, Ohio 43520-0044

To the Board of Trustees:

We have audited the accompanying financial statements of Farmer Township, Defiance County, Ohio, (the Township) as of and for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2000 and 1999, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2001, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

This report is intended solely for the information and use of management, the Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

July 27, 2001

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**FARMER TOWNSHIP
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Taxes	\$17,110	\$44,761		\$61,871
Intergovernmental	73,750	66,218	\$28,534	168,502
Charges for Services	11			11
Interest	3,560	2,956		6,516
Other Revenue	710	17,071		17,781
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	95,141	131,006	28,534	254,681
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Disbursements:				
Current:				
General Government	61,805	367		62,172
Public Safety	2,416	6,893		9,309
Public Works	3,637	46,001		49,638
Health		10,277		10,277
Capital Outlay			28,534	28,534
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	67,858	63,538	28,534	159,930
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over Cash Disbursements	27,283	67,468		94,751
	<hr/>	<hr/>	<hr/>	<hr/>
Other Financing Receipts/(Disbursements):				
Other Financing Sources		100		100
Other Financing Uses	(277)			(277)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	(277)	100		(177)
	<hr/>	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	27,006	67,568		94,574
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	42,424	58,257		100,681
	<hr/>	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	\$69,430	\$125,825		\$195,255
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Taxes	\$11,721	\$48,279	\$60,000
Intergovernmental	68,520	71,794	140,314
Interest	925	962	1,887
Other Revenue	4,506	16,628	21,134
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	85,672	137,663	223,335
Cash Disbursements:			
Current:			
General Government	61,281	1,292	62,573
Public Safety	10,388	6,872	17,260
Public Works	13,612	104,378	117,990
Health		8,682	8,682
Debt Service:			
Note Principal Payment		18,361	18,361
Interest		596	596
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	85,281	140,181	225,462
Total Cash Receipts Over/(Under) Cash Disbursements	<hr/>	<hr/>	<hr/>
	391	(2,518)	(2,127)
Other Financing Receipts:			
Other Financing Sources	<hr/>	<hr/>	<hr/>
	277		277
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	668	(2,518)	(1,850)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	41,756	60,775	102,531
Fund Cash Balances, December 31	<hr/> \$42,424 <hr/>	<hr/> \$58,257 <hr/>	<hr/> \$100,681 <hr/>

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

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Farmer Township, Defiance County, (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services, including road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

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

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

3. Capital Project Fund

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project fund:

Issue II Fund - This fund received proceeds of Issue II funds to chip and seal McCavit Road.

D. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2000 and 1999 budgetary activity appears in Note 3.

E. Property, Plant and Equipment

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

F. Unpaid Vacation and Sick Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the basis of accounting used by the Township.

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2000</u>	<u>1999</u>
Demand deposits	<u>\$195,255</u>	<u>\$100,681</u>

Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Township.

At December 31, 1999, \$8319 of deposits were not insured or collateralized, contrary to Chapter 135, Ohio Revised Code.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2000 and 1999 follows:

2000 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$82,409	\$95,141	\$12,732
Special Revenue	159,790	131,106	(28,684)
Capital Projects	28,584	28,534	(50)
Total	<u>\$270,783</u>	<u>\$254,781</u>	<u>(\$16,002)</u>

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$113,200	\$68,135	\$45,065
Special Revenue	243,165	63,538	179,627
Capital Projects	28,534	28,534	(28,534)
Total	<u>\$356,365</u>	<u>\$160,207</u>	<u>\$196,158</u>

1999 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$80,576	\$85,949	\$5,373
Special Revenue	141,092	137,663	(3,429)
Capital Projects	1,592	1,592	(1,592)
Total	<u>\$223,260</u>	<u>\$223,612</u>	<u>\$352</u>

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

1999 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$110,332	\$85,281	\$25,051
Special Revenue	204,595	140,181	64,414
Capital Projects	3,136	3,136	-
Total	\$318,063	\$225,462	\$92,601

Appropriations exceeded available resources by \$25,266 in 2000 in the Road and Bridge Fund, a special revenue fund, contrary to Ohio Revised Code § 5705.39.

Expenditures exceeded appropriations by \$28,534 in 2000 in the Capital Projects Issue II Fund, contrary to Ohio Revised Code § 5705.41(B).

4. PROPERTY TAX

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

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

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

5. RETIREMENT SYSTEMS

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 10.84% and 13.55% of participants' gross salaries of 2000 and 1999, respectively. The Township has not paid all contributions required through December 31, 2000.

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2000 AND 1999
(Continued)**

6. RISK MANAGEMENT

The Township is a member of the Ohio Township Association Risk Management Risk Authority (OTARMA). OTARMA assumes the risk of loss up to the limits of the Township's policy. OTARMA may assess supplemental premiums. The following risks are covered by OTARMA:

- General liability and casualty;
- Public official's liability; and
- Vehicle.

The Township also provides health insurance coverage to employees through a private carrier.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Farmer Township
Defiance County
09965 State Route 249
P.O. Box 44
Farmer, Ohio 43520-0044

To the Board of Trustees:

We have audited the financial statements of Farmer Township, Defiance County, Ohio, (the Township) as of and for the years ended December 31, 2000 and 1999, and have issued our report thereon dated July 27, 2001. We conducted our audits 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.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2000-40120-001, 2000-40120-002, and 2000-40120-003. We also noted a certain immaterial instance of noncompliance that we have reported to management of the Township in a separate letter dated July 27, 2001.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2000-40120-004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated July 27, 2001.

This report is intended for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

July 27, 2001

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2000 AND 1999**

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

FINDING NUMBER 2000-40120-001

Noncompliance Citation

Ohio Revised Code § 135.18 requires that before making the initial deposit in the designated public depository, the treasurer shall require the designated institution to pledge collateral equal to the excess of the amount of public monies deposited at that time which is over and above that portion of the monies deposited which is covered by the Federal Deposit Insurance Corporation. The Township's depository, the Hicksville Bank, did not have adequate collateral pledged to secure \$8,319 at December 31, 1999. Also, for 17 of the 24 months in the audit period, the depository balances were greater than Federal Depository Insurance Corporation coverage or pledged collateral. At one point during 1999 there were uncollateralized funds in the amount of \$59,231.

The Township is at risk of loss of public monies without sufficient collateral for its deposits. The Clerk should require its depository to provide sufficient collateral for amounts of Township deposits in excess of FDIC insurance amounts and this should be monitored by the Clerk for compliance.

FINDING NUMBER 2000-40120-002

Noncompliance Citation

Ohio Revised Code § 5705.39 requires that the total appropriation from each fund should not exceed the total estimated resources. The Township's appropriations exceeded available resources in the Road and Bridge Fund, a special revenue fund, by the following amount:

Year	Appropriations	Available Resources	Variance
2000	\$79,100	\$53,834	(\$25,266)

The Township should make sure that adopted appropriations do not exceed the total estimated revenue available for expenditure to avoid noncompliance with this Revised Code provision.

FINDING NUMBER 2000-40120-003

Noncompliance Citation

Ohio Revised Code § 5705.41 (B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures exceeded appropriations in the Capital Projects Issue II Fund by the following amount:

Year	Appropriations	Actual Expenditures	Variance
2000		\$28,534	(\$28,534)

FINDING NUMBER 2000-40120-003
(Continued)

While the Township's official certificate of estimated resources reflected budgeted receipts for this fund, the Board did not pass an amended appropriation resolution for the expenditures of this fund. Allowing expenditures to exceed appropriations could result in deficit spending. The Township should regularly monitor budgets to make sure that there is sufficient appropriations to fund anticipated expenditures.

FINDING NUMBER 2000-40120-004

Reportable Condition - Budgeted Receipts and Expenditures

The Township Board sets the annual budget for the Township. Amounts of estimated receipts and expenditures (appropriations) from this budget are posted into the receipts and expenditure ledgers of the Township and used by management to monitor financial operations.

Estimated amounts of receipts established in the annual budget and subsequent amendments were not posted in the budgetary ledgers in fiscal year 1999. In fiscal year 2000, nine of the Township's ten funds, had estimated amounts of receipts that varied with the amounts established by the Township Board. The General Fund had the greatest difference of \$38,191. In addition, estimated amounts of expenditures in the budgetary ledgers did not agree with the amounts established in the annual budget and subsequent amendments in three of the ten funds, with the largest variance of \$28,534 noted in the Issue II Fund, a capital projects fund. Failure to ensure that all approved budgeted amounts are adopted into the accounting system could result in financial goals not being met and/or violations of budgetary laws.

The Clerk should use the amounts of estimated receipts and expenditures that were authorized by the Township. These amounts should be posted into the receipts and expenditure ledgers included in the budgetary statements section of the annual financial report of the Township. As part of the monitoring process, the Board should then review its records to ensure that all budgeted amounts are properly reflected in the appropriate funds.

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2000 AND 1999**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1998-40120-001	Ohio Revised Code § 135.18 for not having adequate collateral as security to an amount equal to the funds on deposit at all times	No	Not corrected. Corrective action will be taken in the future.
1998-40120-002	Ohio Revised Code § 5705.41 (B) for expending money that was not appropriated	No	Not corrected. Corrective action will be taken in the future.
1998-40120-003	Ohio Revised Code § 5705.41 (C) for making an expenditure of money without a proper warrant drawn against the appropriate fund	Yes	Finding no longer valid.

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STATE OF OHIO
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FARMER TOWNSHIP

DEFIANCE 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
AUGUST 21, 2001**