



**Auditor of State
Betty Montgomery**

DEFIANCE TOWNSHIP
DEFIANCE COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Defiance Township
Defiance County
1585 S. Clinton Street
Defiance, OH 43512-3263

To the Board of Trustees:

We have audited the accompanying financial statements of Defiance Township, Defiance County, (the Township) as of and for the years ended December 31, 2002 and 2001. 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 and reserves for encumbrances of the Township as of December 31, 2002 and 2001, 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 May 20, 2003 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.

Defiance Township
Defiance County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of management, the Board, 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 20, 2003

**DEFIANCE 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, 2002**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$18,764	\$59,516	\$78,280
Intergovernmental	51,662	67,806	119,468
Licenses, Permits, and Fees	22,340		22,340
Earnings on Investments	1,182	1,018	2,200
Other Revenue	321	214	535
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	94,269	128,554	222,823
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
General Government	45,583		45,583
Public Safety	33,184		33,184
Public Works		74,331	74,331
Health	1,542		1,542
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	80,309	74,331	154,640
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over Cash Disbursements	13,960	54,223	68,183
	<hr/>	<hr/>	<hr/>
Other Financing Receipts and (Disbursements):			
Transfers-In	8,089		8,089
Transfers-Out		(8,089)	(8,089)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts and (Disbursements)	8,089	(8,089)	
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	22,049	46,134	68,183
Fund Cash Balances, January 1	(4,546)	172,104	167,558
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$17,503</u>	<u>\$218,238</u>	<u>\$235,741</u>
Reserve for Encumbrances, December 31	<u>\$11,021</u>		<u>\$11,021</u>

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

**DEFIANCE 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, 2001**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$19,146	\$57,745	\$76,891
Intergovernmental	73,672	62,351	136,023
Licenses, Permits, and Fees	28,879		28,879
Earnings on Investments	1,541	1,282	2,823
Other Revenue	1,672	2,245	3,917
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	124,910	123,623	248,533
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
General Government	78,388		78,388
Public Safety	45,077		45,077
Public Works		110,610	110,610
Health	3,548		3,548
Capital Outlay	27,526		27,526
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	154,539	110,610	265,149
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(29,629)	13,013	(16,616)
Fund Cash Balances, January 1	25,083	159,091	184,174
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>(\$4,546)</u>	<u>\$172,104</u>	<u>\$167,558</u>
	<hr/>	<hr/>	<hr/>
Reserve for Encumbrances, December 31		\$10,989	\$10,989
	<hr/>	<hr/>	<hr/>

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

**DEFIANCE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Defiance 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 road and bridge maintenance, fire protection and emergency medical services. The Township contracts with the City of Defiance to provide fire services 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:

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

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

**DEFIANCE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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 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. Unencumbered appropriations lapse at year end.

2. 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 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 carried over, and need not be reappropriated. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2002 and 2001 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.

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 demand deposits at December 31, 2002 and 2001 were \$235,741 and \$167,558, respectively. Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

**DEFIANCE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$117,678	\$102,358	(\$15,320)
Special Revenue	124,890	128,554	3,664
Total	<u>\$242,568</u>	<u>\$230,912</u>	<u>(\$11,656)</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$127,609	\$91,330	\$36,279
Special Revenue	279,211	82,420	196,791
Total	<u>\$406,820</u>	<u>\$173,750</u>	<u>\$233,070</u>

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$95,806	\$124,910	\$29,104
Special Revenue	139,537	123,623	(15,914)
Total	<u>\$235,343</u>	<u>\$248,533</u>	<u>\$13,190</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$177,146	\$154,539	\$22,607
Special Revenue	211,922	121,599	90,323
Total	<u>\$389,068</u>	<u>\$276,138</u>	<u>\$112,930</u>

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 payment, the first half is due December 31. The second half payment is due the following June 20.

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

**DEFIANCE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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 Ohio Public Employees Retirement System (OPERS). OPERS 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. For 2002 and 2001, OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equal to 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2002.

6 RISK MANAGEMENT

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability.
- Vehicles.
- Public officials' liability.

7. COMPLIANCE

Contrary to Ohio law, the appropriation authority exceeded estimated resources in the General Fund by \$10,100, Motor Vehicle License Tax Fund by \$9,042 and Permissive Motor Vehicle License Tax Fund by \$1,650 at December 31, 2001.

Contrary to Ohio law, the appropriation authority was amended at the legal level of control without the approval of the Board in the Motor Vehicle License Tax Fund by \$3,142 at December 31, 2002, General Fund by (\$31,113), Motor Vehicle License Tax Fund by (\$9,042), Road and Bridge Fund by \$30,234 and Permissive Motor Vehicle License Tax Fund by (\$1,650) at December 31, 2001.

Contrary to Ohio law, homestead and rollback reimbursements, tangible personal property taxes, local government fund and revenue assistance monies, motor vehicle license taxes, gasoline tax monies were not recorded in the proper fund at December 31, 2002 and 2001.

Contrary to Ohio law, the Township recorded expenditures for fire protection service in the amounts of \$11,192 to the Road and Bridge Fund and \$759 to the Gas Tax Fund.



**Auditor of State
Betty Montgomery**

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

Defiance Township
Defiance County
1585 S. Clinton Street
Defiance, OH 43512-3263

To the Board of Trustees:

We have audited the accompanying financial statements of Defiance Township, Defiance County, (the Township) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated May 20, 2003. 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 audit 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 2002-001 through 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated May 20, 2003.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we 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 May 20, 2003.

Defiance Township
Defiance County
Independent Accountants' Report on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

This report is intended solely 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.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 20, 2003

**DEFIANCE TOWNSHIP
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Revised Code § 5705.10 requires that all revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made and all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

The following monies were not recorded in the proper fund:

1. Homestead and rollback deductions from real estate property tax billings which were reimbursed from the State of Ohio and tangible personal property taxes in 2001 were credited to the Township's General fund instead of being apportioned to the Road and Bridge fund. The Road and Bridge fund should have received \$5,870 and \$5,032 in 2002 and 2001.
2. A distribution of local government fund and local government revenue assistance monies (\$3,766) was credited to the Motor Vehicle License Tax fund instead of the General fund in 2001.
3. Certain payments of motor vehicle license tax monies received from the County Auditor were not credited to the Township's Motor Vehicle License Tax fund. A total of \$697 and \$4,226 should have been credited to the Motor Vehicle License Tax fund in 2002 and 2001.
4. A payment of gasoline tax monies (\$1,407) in 2002 was made to the General fund instead of the Township's Gasoline Tax fund.

This could result in monies being used for purposes other than those prescribed by law. Audit adjustments were recorded to the Township's financial statements to properly account for these monies.

This section also requires that monies paid into any fund shall be used only for the purposes for which such fund is established. In 2001, the Township recorded expenditures for fire protection service to the Road and Bridge Fund (\$11,192) and the Gas Tax Fund (\$759.) These funds were established to account for activities related to roads and road maintenance. These expenditures do not appear to meet the purposes for which funds were established. An adjustment was recorded to the move these expenditures into the Township's General Fund resulting in a negative fund balance of \$4,546 at December 31, 2001.

We recommend that the Clerk record homestead and rollback reimbursements according to the allocation listed on the real estate tax apportionment sheets. All other distributions received from the County Auditor should be posted to the fund established to account for these monies. Also, expenditures should be recorded to funds for the purpose for which it is established.

FINDING NUMBER 2002-002

Noncompliance Citation

Ohio Revised Code § 5705.39 requires the total appropriations from each fund not exceed the total of the estimated revenue available for expenditures. The following funds had appropriations in excess of estimated resources in 2001:

<u>Fund</u>	<u>Appropriations</u>	<u>Estimated Resources</u>	<u>Difference</u>
General Fund	\$177,145	\$167,045	\$10,100
Special Revenue Funds:			
Motor Vehicle License Tax Fund	36,011	26,969	9,042
Permissive Motor Vehicle License Tax Fund	28,359	26,709	1,650

This could result in appropriations being overstated and thereby giving an inaccurate presentation of these amounts to management.

We recommend that the Clerk compare appropriation amounts with estimated resources and make appropriate adjustments when needed.

FINDING NUMBER 2002-003

Noncompliance Citation

Ohio Revised Code § 5705.40 states that any appropriation measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriations.

The Township had appropriation amounts reported in its original financial statements which were different from those approved by the Board of Trustees.

<u>Fund</u>	<u>Reported Appropriations</u>	<u>Approved Appropriations</u>	<u>Difference</u>
2002			
Special Revenue Funds:			
Motor Vehicle License Tax Fund	\$18,376	\$15,234	\$3,142
2001			
General Fund	146,032	177,145	(31,113)
Special Revenue Funds:			
Motor Vehicle License Tax Fund	26,969	36,011	(9,042)
Road and Bridge Fund	62,960	32,726	30,234
Permissive Motor Vehicle License Tax Fund	26,709	28,359	(1,650)

FINDING NUMBER 2002-003
(Continued)

The Board of Trustees approved the annual appropriation measures at the fund level (the legal level of control). This allows the Clerk to make changes to the line – item appropriation accounts within a fund without approval of the Board of Trustees. Changes were made to appropriations at the fund level during the year. These changes made to the legal level of control require the approval of the Board of Trustees. We recommend all appropriation changes at the legal level of control be presented to the Board of Trustees for their approval. After approval, these changes should be entered into the Township's accounting system.

DEFIANCE TOWNSHIP
DEFIANCE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40120-001	Ohio Revised Code § 5705.38 failure to adopt an annual appropriation measure.	Yes	Corrected.



**Auditor of State
Betty Montgomery**

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P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

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DEFIANCE 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
JUNE 17, 2003**