



Dave Yost • Auditor of State



**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Defiance Township  
Defiance County  
8 Deville Drive  
Defiance, Ohio 43512

To the Board of Trustees:

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

We have audited the accompanying financial statements and related notes of Defiance Township, Defiance County, Ohio (the Township) as of and for the years ended December 31, 2014 and 2013.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

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

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

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

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

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

As described in Note 1 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, 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 permitted 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, 2014 and 2013, or changes in financial position thereof for the years then ended.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Defiance Township, Defiance County, Ohio as of December 31, 2014 and 2013, and its combined cash receipts and disbursements 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 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2015, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

May 26, 2015

**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$19,208	\$127,726		\$146,934
Charges for Services		6,985		6,985
Licenses, Permits and Fees	26,436			26,436
Intergovernmental	23,737	116,534	\$676	140,947
Earnings on Investments	239	244		483
Miscellaneous	1,294			1,294
<i>Total Cash Receipts</i>	<u>70,914</u>	<u>251,489</u>	<u>676</u>	<u>323,079</u>
<b>Cash Disbursements</b>				
Current:				
General Government	77,812	2,242		80,054
Public Safety		99,123		99,123
Public Works		148,841	676	149,517
Health	1,641			1,641
<i>Total Cash Disbursements</i>	<u>79,453</u>	<u>250,206</u>	<u>\$676</u>	<u>330,335</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(8,539)</u>	<u>1,283</u>		<u>(7,256)</u>
<b>Other Financing Receipts</b>				
Sale of Capital Assets	6,500			6,500
<i>Net Change in Fund Cash Balances</i>	(2,039)	1,283		(756)
<i>Fund Cash Balances, January 1</i>	<u>451,900</u>	<u>484,546</u>		<u>936,446</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		485,829		485,829
Unassigned	449,861			449,861
<i>Fund Cash Balances, December 31</i>	<u>\$449,861</u>	<u>\$485,829</u>		<u>\$935,690</u>

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

**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$19,343	\$122,898		\$142,241
Charges for Services		9,531		9,531
Licenses, Permits and Fees	26,402			26,402
Intergovernmental	55,439	119,457	\$33,509	208,405
Earnings on Investments	366	208		574
Miscellaneous	790	23		813
<i>Total Cash Receipts</i>	<u>102,340</u>	<u>252,117</u>	<u>33,509</u>	<u>387,966</u>
<b>Cash Disbursements</b>				
Current:				
General Government	85,910	1,344		87,254
Public Safety		93,500		93,500
Public Works		201,629	33,509	235,138
Health	2,594			2,594
<i>Total Cash Disbursements</i>	<u>88,504</u>	<u>296,473</u>	<u>\$33,509</u>	<u>418,486</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>13,836</u>	<u>(44,356)</u>		<u>(30,520)</u>
<b>Other Financing Disbursements</b>				
Other Financing Uses		(1,423)		(1,423)
<i>Net Change in Fund Cash Balances</i>	13,836	(45,779)		(31,943)
<i>Fund Cash Balances, January 1</i>	<u>438,064</u>	<u>530,325</u>		<u>968,389</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		484,546		484,546
Unassigned	451,900			451,900
<i>Fund Cash Balances, December 31</i>	<u>\$451,900</u>	<u>\$484,546</u>		<u>\$936,446</u>

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



**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Defiance Township, Defiance County, (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 and emergency medical services. The Township contracts with the City of Defiance to provide fire and rescue services.

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

**B. Accounting Basis**

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**C. 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.

**D. 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 accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds**

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

**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

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.

Fire District - This fund receives property tax money for the purpose of providing fire and rescue services to Township residents in the rural portion of the Township.

**3. 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.

Public Works Commission Projects - The Township received a grant from the State of Ohio and administered by the Defiance County Engineer to maintain and repair Township roads.

**E. 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. 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 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 2014 and 2013 budgetary activity appears in Note 3.

**F. 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:

**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

**1. Nonspendable**

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

**2. 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.

**3. Committed**

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**4. Assigned**

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

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**G. Property, Plant, and Equipment**

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

**2. Equity in Pooled Deposits**

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

**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

follows:

	2014	2013
Demand deposits	\$935,690	\$936,446

**Deposits:** 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, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$60,300	\$77,414	\$17,114
Special Revenue	246,592	251,489	4,897
Capital Projects	676	676	
Total	\$307,568	\$329,579	\$22,011

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$512,200	\$79,453	\$432,747
Special Revenue	731,138	250,206	480,932
Capital Projects	676	676	
Total	\$1,244,014	\$330,335	\$913,679

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$66,722	\$102,340	\$35,618
Special Revenue	246,345	252,117	5,772
Capital Projects	33,509	33,509	
Total	\$346,576	\$387,966	\$41,390

**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$504,786	\$88,504	\$416,282
Special Revenue	776,670	297,896	478,774
Capital Projects	33,509	33,509	
Total	\$1,314,965	\$419,909	\$895,056

**4. Property Tax**

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.

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

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

**5. Retirement System**

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

The Ohio Revised Code also prescribes contribution rates. For 2014 and 2013, OPERS members contributed 10%, respectively, of their gross salaries and the Township contributed an amount equaling 14%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2014.

**6. Risk Management**

**Commercial Insurance**

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

**Risk Pool Membership**

The Township belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-

**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013  
(Continued)**

profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 774 members as of December 31, 2012 and 2013 respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2012 and 2013 (the latest information available).

	<u>2012</u>	<u>2013</u>
Assets	\$13,100,381	\$13,774,304
Liabilities	<u>(6,687,193)</u>	<u>(7,968,395)</u>
Members' Equity	<u>\$6,413,188</u>	<u>\$5,805,909</u>

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).



# Dave Yost • Auditor of State

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

Defiance Township  
Defiance County  
8 Deville Drive  
Defiance, Ohio 43512

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 Defiance Township, Defiance County, (the Township) as of and for the year ended December 31, 2014 and 2013, and the related notes to the financial statements, and have issued our report thereon dated May 26, 2015, 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 opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a 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. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

### ***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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

May 26, 2015



**DEFIANCE TOWNSHIP  
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2014 AND 2013**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2014-001**

**Material Weakness**

**Financial Reporting**

Inaccurate posting of transactions impedes the ability of the Trustees to accurately assess the financial status of the Township.

In 2014 the sale of land for \$6,500 was misclassified as miscellaneous revenue instead of sale of capital assets in the General Fund. As a result, the Township's financial statements did not correctly reflect the financial activity of the Township.

This error was not identified and rectified prior to the audit due to deficiencies in the Township's internal controls over financial monitoring. The accompanying financial statements have been adjusted to correct this error.

We recommend the Fiscal Officer post all transactions in accordance with the guidance established by the Uniform Accounting Network manual. Further, the Township should adopt policies and procedures including a fiscal review of the financial statements by the Fiscal Officer and the Trustees to ensure errors are corrected.

**Officials' Response:**

We did not receive a response from Officials to this finding.

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# Dave Yost • Auditor of State

**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 11, 2015**