



Dave Yost • Auditor of State

**DELAWARE TOWNSHIP
DEFIANCE COUNTY
DECEMBER 31, 2016 AND 2015**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Delaware Township
Defiance County
07891 Mulligans Bluff Road
Defiance, Ohio 43512-9749

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 Delaware Township, Defiance County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015.

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, 2016 and 2015, 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 Delaware Township, Defiance County, Ohio as of December 31, 2016 and 2015, 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 December 6, 2017, 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

December 6, 2017

**DELAWARE 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, 2016**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$14,882	\$162,110		\$176,992
Charges for Services		41,613		41,613
Licenses, Permits and Fees	1,000	3,825		4,825
Intergovernmental	34,125	142,906	\$56,126	233,157
Earnings on Investments	51	63		114
Miscellaneous	3,444	32,980		36,424
<i>Total Cash Receipts</i>	<u>53,502</u>	<u>383,497</u>	<u>56,126</u>	<u>493,125</u>
Cash Disbursements				
Current:				
General Government	51,098	3,769		54,867
Public Safety		181,034		181,034
Public Works		197,030		197,030
Health		20,005		20,005
Capital Outlay			56,126	56,126
Debt Service:				
Principal Retirement		9,483		9,483
Interest and Fiscal Charges		1,463		1,463
<i>Total Cash Disbursements</i>	<u>51,098</u>	<u>412,784</u>	<u>\$56,126</u>	<u>520,008</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>2,404</u>	<u>(29,287)</u>		<u>(26,883)</u>
Other Financing Receipts				
Other Debt Proceeds		77,000		77,000
<i>Net Change in Fund Cash Balances</i>	2,404	47,713		50,117
<i>Fund Cash Balances, January 1</i>	<u>15,621</u>	<u>131,961</u>		<u>147,582</u>
Fund Cash Balances, December 31				
Restricted		110,690		110,690
Committed		68,984		68,984
Assigned	18,025			18,025
<i>Fund Cash Balances, December 31</i>	<u>\$18,025</u>	<u>\$179,674</u>		<u>\$197,699</u>

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

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Delaware Township, Defiance 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 and emergency medical services. The Township contracts with the Village of Ney and Washington Township to provide them fire protection and emergency medical services. The Township appropriates fire fund money to support a volunteer fire department.

Public Entity Risk Pool

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. OTARMA provides property and casualty coverage for its members. Note 6 to the financial statements provide additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

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 or committed to expenditure for specified purposes other than debt service or capital projects. 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.

Special Levy Fund This fund receives property tax money for maintenance of fire and ems equipment and buildings, fire protection, and emergency medical services.

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

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

Public Works Commission Project Fund – The Township received a grant from the State of Ohio and is administered by the County Engineer to maintain and repair Township roads.

Basis of Accounting

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

Budgetary Process

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

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.

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.

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 2016 budgetary activity appears in Note 3.

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.

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

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

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

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.

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

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

Note 3 – Budgetary Activity

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$52,550	\$53,502	\$952
Special Revenue	427,780	460,497	32,717
Capital Projects	75,000	56,126	(18,874)
Total	\$555,330	\$570,125	\$14,795

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$61,992	\$51,098	\$10,894
Special Revenue	527,866	412,784	115,082
Capital Projects	75,000	56,126	18,874
Total	\$664,858	\$520,008	\$144,850

Note 4 – 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 follows:

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

	2016
Demand deposits	\$197,699

Deposits

Deposits are insured by the Federal Depository Insurance Corporation.

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.

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.

Note 6 - Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), 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, 2015, 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.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2016.

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

	2016
Assets	\$38,473,283
Liabilities	8,244,140
Net Position	\$30,229,143

At December 31, 2016, the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$6,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<u>2016 Contributions to OTARMA</u>
--

\$10,571

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

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

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

Social Security

Some Township employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

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

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

Note 8 – Postemployment Benefits

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

Note 9 – Debt

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Bank Loan - 1124698 - Dump Truck	\$6,232	5.75%
Bank Loan - 421114662 - Dump Truck	16,259	3.79%
Bank Loan - 421127532 - EMS Unit	<u>77,250</u>	3.95%
Total	<u><u>\$99,741</u></u>	

The Township obtained a bank loan in 2010 in the amount of \$37,190 to finance the purchase of a dump truck used for Township road maintenance. The loan was approved at an interest rate of 5.75% to be repaid over a seven year period. The loan is secured by the dump truck financed with the loan proceeds.

The Township obtained a bank loan in 2015 in the amount of \$20,000 to finance the purchase of a used dump truck for Township road maintenance. The loan was approved at an interest rate of 3.79% to be repaid over a five year period. The loan is secured by the used dump truck financed with the loan proceeds.

The Township obtained a bank loan in 2016 in the amount of \$77,265 for the purchase of an Emergency Medical Services (EMS) Unit for Township emergency medical services. The loan was approved at an interest rate of 3.95% to be repaid over a ten year period. The loan is secured by the EMS unit financed with the loan proceeds.

Noncompliance

The bank loans acquired by the Township are contrary to the Ohio Revised Code which does not allow bank loans or debt with security interest in Township property.

Amortization

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

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)**

Year ending December 31:	Bank Loan - 1124698 - Dump Truck	Bank Loan - 421114662 - Dump Truck	Bank Loan - 421127532 - EMS Unit
2017	\$6,501	\$4,422	\$9,420
2018		4,422	9,420
2019		4,422	9,420
2020		4,422	9,420
2021			9,420
2022-2026			47,102
Total	\$6,501	\$17,688	\$94,202

Note 10 – Miscellaneous Revenue

In 2016, miscellaneous revenue in the General Fund consisted primarily of meeting room and hall rental fees. Miscellaneous revenue in the Special Revenue Fund in 2016 consisted primarily of sale of cemetery lots, base installation fees, and a donation from the Delaware Township Fire and EMS Association.

**DELAWARE 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, 2015**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$14,591	\$158,578	\$173,169
Charges for Services		42,132	42,132
Licenses, Permits and Fees	1,550	3,725	5,275
Intergovernmental	34,533	111,318	145,851
Earnings on Investments	28	65	93
Miscellaneous	3,016	12,206	15,222
<i>Total Cash Receipts</i>	<u>53,718</u>	<u>328,024</u>	<u>381,742</u>
Cash Disbursements			
Current:			
General Government	60,253	6,560	66,813
Public Safety		64,863	64,863
Public Works		245,402	245,402
Health		9,830	9,830
Debt Service:			
Principal Retirement		5,431	5,431
Interest and Fiscal Charges		1,093	1,093
<i>Total Cash Disbursements</i>	<u>60,253</u>	<u>333,179</u>	<u>393,432</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(6,535)</u>	<u>(5,155)</u>	<u>(11,690)</u>
Other Financing Receipts			
Other Debt Proceeds		19,723	19,723
Sale of Capital Assets		3,000	3,000
<i>Total Other Financing Receipts</i>		<u>22,723</u>	<u>22,723</u>
<i>Net Change in Fund Cash Balances</i>	(6,535)	17,568	11,033
<i>Fund Cash Balances, January 1</i>	<u>22,156</u>	<u>114,393</u>	<u>136,549</u>
Fund Cash Balances, December 31			
Restricted		110,304	110,304
Committed		21,657	21,657
Assigned	9,442		9,442
Unassigned	6,179		6,179
<i>Fund Cash Balances, December 31</i>	<u>\$15,621</u>	<u>\$131,961</u>	<u>\$147,582</u>

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

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Delaware Township, Defiance 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 and emergency medical services. The Township contracts with the Village of Ney and Washington Township in Defiance County to provide fire protection and emergency medical services. The Township appropriates fire fund money to support a volunteer fire department.

Public Entity Risk Pool

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a public entity risk pool. OTARMA provides property and casualty coverage for its members. Note 6 to the financial statements provide additional information for this entity.

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

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 or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Fund:

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

Basis of Accounting

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

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

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 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.

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.

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 2015 budgetary activity appears in Note 3.

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 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*

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

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

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

Note 3 – Budgetary Activity

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$44,200	\$53,718	\$9,518
Special Revenue	359,515	350,747	(8,768)
Total	\$403,715	\$404,465	\$750

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$66,300	\$60,253	\$6,047
Special Revenue	386,885	333,179	53,706
Total	\$453,185	\$393,432	\$59,753

Note 4 – Deposits

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

	2015
Demand deposits	\$147,582

Deposits

Deposits are insured by the Federal Depository Insurance Corporation.

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

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

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.

Note 6 - Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), 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, 2015, 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.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2015.

	<u>2015</u>
Assets	\$37,313,311
Liabilities	8,418,518
Net Position	\$28,894,793

At December 31, 2015, the liabilities above include approximately \$7.8 million of estimated incurred claims payable. The assets above also include approximately \$7.7 million of unpaid claims to be billed to approximately 989 member governments in the future, as of December 31, 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Township's share of these unpaid claims collectible in future years is

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

approximately \$5,000.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<u>2015 Contributions to OTARMA</u>
\$10,195

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

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2015.

Social Security

Some Township employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2015.

Note 8 – Postemployment Benefits

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

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)**

Note 9 – Debt

Debt outstanding at December 31, 2015 was as follows:

	Principal	Interest Rate
Bank Loan - 1124698 - Dump Truck	\$12,142	5.75%
Bank Loan - 421114662 - Dump Truck	20,000	3.79%
Total	\$32,142	

The Township obtained a bank loan in 2010 in the amount of \$37,190 to finance the purchase of a dump truck used for Township road maintenance. The loan was approved at an interest rate of 5.75% to be repaid over a seven year period. The loan is secured by the dump truck financed with the loan proceeds.

The Township obtained a bank loan in 2015 in the amount of \$20,000 to finance the purchase of a used dump truck for Township road maintenance. The loan was approved at an interest rate of 3.79% to be repaid over a five year period. The loan is secured by the used dump truck financed with the loan proceeds.

Noncompliance

The bank loans acquired by the Township are contrary to the Ohio Revised Code which does not allow bank loans or debt with security interest in Township property.

Amortization

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

	Bank Loan - 1124698 - Dump Truck	Bank Loan - 421114662 - Dump Truck
Year ending December 31:		
2016	\$6,524	\$4,422
2017	6,501	4,422
2018		4,422
2019		4,422
2020		4,422
2021-2025		
Total	\$13,025	\$22,110

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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

Delaware Township
Defiance County
07891 Mulligans Bluff Road
Defiance, Ohio 43512-9749

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 Delaware Township, Defiance County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated December 6, 2017, 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 a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-002 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

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

December 6, 2017

**DELAWARE TOWNSHIP
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Noncompliance Citation

Ohio Rev. Code Chapter 133 provides various methods for subdivisions to incur debt. **Ohio Rev. Code § 133.22** allows a subdivision to issue anticipatory securities, and **Ohio Rev. Code § 133.10** allows anticipation securities in anticipation of current property tax revenues or in anticipation of current revenues in and for any fiscal year from any source or combination of sources, including distributions of any federal or state monies, other than the proceeds of property taxes levied by the subdivision. **Ohio Rev. Code § 133.15** allows the issuance of securities for the purpose of paying all or any portion of the costs of any permanent improvement that the subdivision is authorized, alone or in cooperation with other persons, to acquire, improve, or construct, and **Ohio Rev. Code § 133.18** allows the taxing authority of a subdivision by legislation to submit to the electors of the subdivision the question of issuing any general obligation bonds, for one purpose, that the subdivision has power or authority to issue.

Townships can only obtain debt by issuing general obligation debt or lease-purchase options. Townships do not have the authority to take out a bank loan because “bank loans” are not a statutorily permitted form of debt for townships. However, townships have the authority to issue securities under Ohio Rev. Code Chapter 133. Townships may not obtain debt by solely collateralizing equipment or property but must pledge the full faith and credit of the township as outlined in **Ohio Rev. Code § 5549.021**, the exception being for securing equipment by lease-purchase option under **Ohio Rev. Code § 505.267**.

In 2016, the Township obtained bank installment loans through the Sherwood State Bank in the amount of \$77,265 to purchase an Emergency Medical Services (EMS) Unit, and in 2015, the Township obtained a bank loan in the amount of \$20,000 to purchase a used dump truck. These loan agreements contained covenants requiring the Township to secure the loans with the property financed with the loan proceeds. This type of debt is not authorized under **Ohio Rev. Code Chapter 133**.

Management did not properly consult with their legal counsel prior to entering into these debt agreements.

The Ohio Revised Code provides limited methods of incurring debt for townships, and, of those methods, installment loans with banking institutions are not included. Township officials should contact legal counsel before incurring future debt.

FINDING NUMBER 2016-002

Material Weakness - Fund Classification

Accurate financial reporting is the responsibility of the Fiscal Officer and the Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is fairly stated. In addition, Governmental Accounting Standards Board (GASB) Statement No. 54 requires fund balance be divided into one of five classifications (nonspendable, restricted, committed, assigned, and unassigned) based on the extent to which constraints are imposed upon the resources in the governmental funds.

The Fiscal Officer is responsible for the majority of the functions related to the accounting records. Without proper separation of duties, there is a possibility errors or fraud could occur and not be detected in a timely period.

The Township lacked a policy regarding financial review which contributed to material posting discrepancies such as the following, occurring without detection:

- In 2016, homestead and rollback and manufactured home payments of \$37,039, were incorrectly classified as property taxes instead of intergovernmental revenue in the following funds: \$4,671 in the General Fund, \$17,352 in the Road and Bridge Fund, \$3,055 in the Road District Fund, \$3,554 in the Fire Fund, and \$8,407 in the Special Levy Fund.
- In 2016, on-behalf grant monies of \$56,126 in the Public Works Commission Project Fund were incorrectly classified as conservation - recreation expenditures instead of capital outlay.
- In 2016, other debt proceeds of \$77,000 in the Special Levy Fund were incorrectly classified as other financing sources.
- In 2016 and 2015, \$68,984 and \$21,657, respectively, in the Road and Bridge Fund was incorrectly classified as restricted fund balance instead of committed.
- As of December 31, 2016 and 2015, the General Fund's appropriations exceeded estimated receipts for the subsequent year, and as such, this excess should have been reported as assigned fund balance instead of unassigned fund balance in accordance with GASB Statement No. 54. This overstated the unassigned fund balance and understated the assigned fund balance in the General Fund by \$18,025 and \$9,442, respectively.

As a result, the Township's financial statements did not correctly reflect the financial activity of the Township. The Township's financial statements and accounting records have been adjusted to reflect these and other discrepancies ranging from \$3,055 to \$77,000.

We recommend the Fiscal Officer post all transactions in accordance with the guidance established by the Uniform Accounting Network manual and GASB Statement No. 54. Furthermore, the Township should adopt policies and procedures, including a fiscal review of the financial statements and notes to the financial statements, by the Fiscal Officer and the Trustees to help ensure errors and omissions are detected and corrected. Additionally, we recommend the Township review Auditor of State Bulletin 2011-004 and monitor the financial statements for inclusion of the proper GASB 54 disclosures.

Officials' Response:

We did not receive a response from Officials to the findings reported above.



Dave Yost • Auditor of State

DELAWARE 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
DECEMBER 26, 2017