



**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  
8 Deville Drive  
Defiance, Ohio 43512-3706

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance Township, Defiance County, (the Township) as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund and the aggregate remaining fund information of Defiance Township, Defiance County, Ohio as of December 31, 2004, and the respective changes in modified cash financial position and the respective budgetary comparison for the General, Motor Vehicle License Tax, Gasoline Tax, Road & Bridge, and Fire District Funds thereof for the year then ended in conformity with the accounting basis Note 1 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2005, 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 testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statement but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



**Betty Montgomery**  
Auditor of State

June 8, 2005

**Defiance Township, Defiance County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004

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This discussion and analysis of Defiance Township's (the Township) financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2004, within the limitations of the Township's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Township's financial performance.

**Highlights**

Key highlights for 2004 are as follows:

- Net assets of governmental activities decreased \$43,759, or 20 percent, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the Road & Bridge Fund, which realized the greatest burden of increased costs in 2004; however, cost increases affected most funds.
- The Township's general receipts are primarily levied taxes and intergovernmental monies. These receipts represent respectively 41 and 19 percent of the total cash received for governmental activities during the year. Property tax and intergovernmental receipts for 2004 increased significantly compared to 2003 as proceeds from a levy for fire protection were received.
- The Kiser road improvement project was completed at a cost of \$190,606 to the Township.

**Using the Basic Financial Statements**

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Township's modified cash basis of accounting.

**Report Components**

The statement of net assets and the statement of activities provide information about the cash activities of the Township as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Township as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the Government – wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Township has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Township's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**Defiance Township, Defiance County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004  
(Continued)

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As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

**Reporting the Township as a Whole**

This annual report includes all activities for which Defiance Township is fiscally responsible. These activities, defined as the Township's reporting entity, are operated within separate legal entities that make up the primary government. The primary government consists of Defiance Township.

The statement of net assets and the statement of activities reflect how the Township did financially during 2004, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental activities of the Township at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Township's general receipts.

These statements report the Township's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Township's financial health. Over time, increases or decreases in the Township's cash position is one indicator of whether the Township's financial health is improving or deteriorating. When evaluating the Township's financial condition, you should also consider other nonfinancial factors as well such as the Township's property tax base, the condition of the Township's capital assets and infrastructure, the extent of the Township's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we report governmental activities which include the Township's basic services such as fire and roads. State grants and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**Reporting the Township's Most Significant Funds**

Fund financial statements provide detailed information about the Township's major funds – not the Township as a whole. The Township establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Township are reported in governmental funds.

The governmental fund financial statements provide a detailed view of the Township's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Township's programs. The Township's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Township's major governmental funds are the General, Motor Vehicle License Tax, Gasoline Tax, Road & Bridge and Fire District Funds. The programs reported in governmental funds are the same as those reported in the governmental activities section of the entity-wide statements.



**Defiance Township, Defiance County**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2004**  
(Continued)

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**The Township as a Whole**

Table 1 provides a summary of the Township's net assets for 2004 compared to 2003 on a modified cash basis:

(Table 1)  
**Net Assets**

	Governmental Activities	
	2004	2003
<b>Assets</b>		
Cash and Cash Equivalents	\$ 180,310	\$ 224,069
Total Assets	180,310	224,069
 <b>Net Assets</b>		
Restricted for:		
Other Purposes	119,784	226,410
Unrestricted	60,526	(2,341)
Total Net Assets	\$ 180,310	\$ 224,069

As mentioned previously, net assets of governmental activities decreased \$43,759 or 20 percent during 2004. The primary reason contributing to the decrease in cash balances was that the Township had completed the Kiser Road improvement project at a cost of \$190,606.

Table 2 reflects the changes in net assets in 2004. Since the Township did not prepare financial statements in this format for 2003, a comparative analysis of government – wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**Defiance Township, Defiance County**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2004**  
(Continued)

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(Table 2)  
**Changes in Net Assets**

	Governmental Activities 2004
	2004
Receipts:	
Program Receipts:	
Charges for Services and Sales	
Operating Grants and Contributions	\$ 90,715
Capital Grants and Contributions	16,328
Total Program Receipts	107,043
General Receipts:	
Property and Other Local Taxes	138,511
Grants and Entitlements Not Restricted to Specific Programs	65,081
Licenses, Permits & Fees	26,814
Interest	1,586
Miscellaneous	2,234
Total General Receipts	234,226
Total Receipts	341,269

(Table 2)  
**Changes in Net Assets**

	Governmental Activities 2004
	2004
Disbursements:	
General Government	48,567
Public Safety	49,135
Public Works	255,709
Health	2,278
Capital Outlay	16,328
Principal Retirement	9,810
Interest and Fiscal Charges	3,201
Total Disbursements	385,028
Decrease in Net Assets	(43,759)
Net Assets, January 1, 2004	224,069
Net Assets, December 31, 2004	\$180,310

Program receipts represent only 31 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money.

General receipts represent 69 percent of the Township's total receipts, and of this amount, over 59 percent are local taxes. State grants, entitlements, licenses, permits and fees make up most of the balance of the Township's general receipts (39 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

**Defiance Township, Defiance County**  
 Management's Discussion and Analysis  
 For the Year Ended December 31, 2004  
 (Continued)

Disbursements for General Government represent the overhead costs of running the Township and the support services provided for the other Township activities. These include the costs of the board of trustees and clerk, as well as internal services such as payroll and purchasing.

Public Safety is the costs of fire protection and emergency medical services; Public Works is the cost of maintaining the roads. Health is the cost of maintaining of the cemeteries; and Capital Outlay is the cost of maintaining roads.

**Governmental Activities**

If you look at the Statement of Activities on page 10, you will see that the first column lists the major services provided by the Township. The next column identifies the costs of providing these services. The major program disbursement for governmental activities is public works, which accounts for 66 percent of all governmental disbursements. General government and public safety also represent, significant costs, of about 13 percent each. The next two columns of the Statement entitled Program Receipts identify amounts paid by grants received by the Township that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

(Table 3)

**Governmental Activities**

	Total Cost Of Services 2004	Net Cost of Services 2004
	2004	2004
General Government	\$48,567	\$48,567
Public Safety	49,135	42,343
Public Works	255,709	171,786
Health	2,278	2,278
Capital Outlay	16,328	
Principal Retirement	9,810	9,810
Interest and Fiscal Charges	3,201	3,201
Total Expenses	\$385,028	\$277,985

The dependence upon property tax receipts is apparent as over 72 percent of Governmental activities are supported through these general receipts.

**The Township's Funds**

Total government funds had receipts of \$341,269 and disbursements of \$385,028. The greatest change within Governmental funds occurred within the Road & Bridge Fund. The fund balance of the Road & Bridge Fund decreased \$109,372 as the result of the Kiser road improvement project costs.

In 2003, a tax levy for fire protection and emergency medical services was approved by the Township's electorate. This allowed these costs which were previously bore by the General Fund to be shifted to the Fire District Fund. The General Fund disbursements decreased by \$66,998.

**Defiance Township, Defiance County**  
Management's Discussion and Analysis  
For the Year Ended December 31, 2004  
(Continued)

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**Governmental Fund Budgeting Highlights**

The Township's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2004, the Township did not amend the budget of the General fund. Budgeted receipts were less than actual receipts which reflect a conservative approach to the budget process. Landfill fees and estate tax amounts were significantly greater than anticipated.

The Township appropriates all its estimated receipts and available fund balances. Even through receipts exceeded expectations, appropriations were not increased. The Township kept spending well below budgeted amounts as demonstrated by the significant reported variances.

**Capital Assets and Debt Administration**

**Capital Assets**

The Township does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements.

**Debt**

At December 31, 2004, the Township's outstanding debt included \$56,583 from a promissory note, and \$45,279 in lease purchase agreement. The debt was to finance two dump trucks and plowing equipment for Township road maintenance. For further information regarding the Township's debt, refer to Note 4 to the basic financial statements.

**Current Issues**

The challenge for all Townships is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and intergovernmental revenues.

On January 25, 2005, the Township entered into a promissory note with a local bank to finance a dump truck and plowing equipment for Township road maintenance. This issue was included in the Township's outstanding debt at December 31, 2004.

**Contacting the Township's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to reflect the Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Tim Houck, Clerk, Defiance Township, 8 DeVille Drive, Defiance, Ohio 43512.

**Defiance Township, Defiance County**  
*Statement of Net Assets - Modified Cash Basis*  
*December 31, 2004*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$180,310</u>
<i>Total Assets</i>	<u><u>\$180,310</u></u>
<b>Net Assets</b>	
Restricted for:	
Other Purposes	119,784
Unrestricted	<u>60,526</u>
<i>Total Net Assets</i>	<u><u>\$180,310</u></u>

See accompanying notes to the basic financial statements

**Defiance Township, Defiance County**  
*Statement of Activities - Modified Cash Basis*  
*For the Year Ended December 31, 2004*

	<u>Program Cash Receipts</u>		<u>Net Disbursements and Changes in Net Assets</u>
	<u>Cash Disbursements</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
			<u>Total</u>
<b>Governmental Activities</b>			
General Government	\$48,567		(\$48,567)
Public Safety	49,135	6,792	(42,343)
Public Works	255,709	83,923	(171,786)
Health	2,278		(2,278)
Capital Outlay	16,328		16,328
Debt Service	13,011		(13,011)
<b>Total</b>	<b>\$385,028</b>	<b>\$90,715</b>	<b>\$16,328</b>
<b>General Receipts</b>			
Property Taxes Levied for:			
			21,007
			53,499
			56,314
Other Local Taxes Levied for:			
			7,691
			65,081
			26,814
			1,586
			2,234
			<u>234,226</u>
			(43,759)
			<u>224,069</u>
			<u>\$180,310</u>

See accompanying notes to the basic financial statements

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**Defiance Township, Defiance County**  
*Statement of Modified Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*December 31, 2004*

	General	Motor Vehicle License Tax Fund	Gasoline Tax Fund
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$60,526	\$18,862	\$58,754
<i>Total Assets</i>	<u>\$60,526</u>	<u>\$18,862</u>	<u>\$58,754</u>
<b>Fund Balances</b>			
Unreserved:			
Undesignated (Deficit), Reported in:			
General Fund	60,526		
Special Revenue Funds		18,862	58,754
<i>Total Fund Balances</i>	<u>\$60,526</u>	<u>\$18,862</u>	<u>\$58,754</u>

See accompanying notes to the basic financial statements



Road & Bridge Fund	Fire District Fund	Other Governmental Funds	Total Governmental Funds
\$27,307	\$14,248	\$613	\$180,310
<u>\$27,307</u>	<u>\$14,248</u>	<u>\$613</u>	<u>\$180,310</u>
27,307	14,248	613	60,526
<u>27,307</u>	<u>14,248</u>	<u>613</u>	<u>119,784</u>
<u><u>\$27,307</u></u>	<u><u>\$14,248</u></u>	<u><u>\$613</u></u>	<u><u>\$180,310</u></u>

**Defiance Township, Defiance County**  
*Statement of Cash Receipts, Disbursements and Changes in Modified-  
Cash Basis Fund Balances*  
*Governmental Funds*  
For the Year Ended December 31, 2004

	General	Motor Vehicle License Tax Fund	Gasoline Tax Fund
<b>Receipts</b>			
Property and Other Local Taxes	\$21,007		
Licenses, Permits and Fees	26,814		
Intergovernmental	65,081	9,397	67,226
Interest	907	175	466
Other	180		
<i>Total Receipts</i>	<u>113,989</u>	<u>9,572</u>	<u>67,692</u>
<b>Disbursements</b>			
Current:			
General Government	48,567		
Public Safety	277		
Public Works		7,260	65,047
Health	2,278		
Capital Outlay			
Debt Service:			
Redemption of Principal		3,270	3,270
Interest and Other Fiscal Charges		1,067	1,067
<i>Total Disbursements</i>	<u>51,122</u>	<u>11,597</u>	<u>69,384</u>
<i>Net Change in Fund Balances</i>	62,867	(2,025)	(1,692)
<i>Fund Balances Beginning of Year</i>	<u>(2,341)</u>	<u>20,887</u>	<u>60,446</u>
<i>Fund Balances End of Year</i>	<u>\$60,526</u>	<u>\$18,862</u>	<u>\$58,754</u>

See accompanying notes to the basic financial statements

Road & Bridge Fund	Fire District Fund	Other Governmental Funds	Total Governmental Funds
\$53,499	\$56,314	\$7,691	\$138,511
			26,814
7,203	6,792	16,425	172,124
		38	1,586
2,054			2,234
<u>62,756</u>	<u>63,106</u>	<u>24,154</u>	<u>341,269</u>
			48,567
	48,858		49,135
167,791		15,611	255,709
			2,278
		16,328	16,328
3,270			9,810
1,067			3,201
<u>172,128</u>	<u>48,858</u>	<u>31,939</u>	<u>385,028</u>
(109,372)	14,248	(7,785)	(43,759)
<u>136,679</u>		<u>8,398</u>	<u>224,069</u>
<u>\$27,307</u>	<u>\$14,248</u>	<u>\$613</u>	<u>\$180,310</u>

**Defiance Township, Defiance County**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual -Budget Basis*  
*General Fund*  
*For the Year Ended December 31, 2004*

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
<b>Receipts</b>				
Property and Other Local Taxes	\$21,000	\$21,000	\$21,007	\$7
Licenses, Permits and Fees	17,207	17,207	26,814	9,607
Intergovernmental	45,991	45,991	65,081	19,090
Interest	1,142	1,142	907	(235)
Other			180	180
<i>Total receipts</i>	<u>85,340</u>	<u>85,340</u>	<u>113,989</u>	<u>28,649</u>
<b>Disbursements</b>				
Current:				
General Government	79,455	79,455	48,567	30,888
Public Safety	2,040	2,040	277	1,763
Health	12,100	12,100	2,278	9,822
<i>Total Disbursements</i>	<u>93,595</u>	<u>93,595</u>	<u>51,122</u>	<u>42,473</u>
<i>Net Change in Fund Balance</i>	<u>(8,255)</u>	<u>(8,255)</u>	<u>62,867</u>	<u>71,122</u>
<i>Fund Balance Beginning of Year</i>	<u>8,255</u>	<u>8,255</u>	<u>(2,341)</u>	<u>(10,596)</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$60,526</u>	<u>\$60,526</u>

See accompanying notes to the basic financial statements

**Defiance Township, Defiance County**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual -Budget Basis*  
*Motor Vehicle License Tax Fund*  
*For the Year Ended December 31, 2004*

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>Receipts</b>				
Intergovernmental	\$ 8,452	\$ 8,452	\$ 9,397	\$ 945
Interest	148	148	175	27
<i>Total receipts</i>	<u>8,600</u>	<u>8,600</u>	<u>9,572</u>	<u>972</u>
<b>Disbursements</b>				
Current:				
Public Works	24,390	24,390	7,260	17,130
Debt Service:				
Redemption of Principal	3,300	3,300	3,270	30
Interest and Other Fiscal Charges	1,100	1,100	1,067	33
<i>Total Disbursements</i>	<u>28,790</u>	<u>28,790</u>	<u>11,597</u>	<u>17,193</u>
<i>Net Change in Fund Balance</i>	(20,190)	(20,190)	(2,025)	18,165
<i>Fund Balance Beginning of Year</i>	<u>20,190</u>	<u>20,190</u>	<u>20,887</u>	<u>697</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$18,862</u>	<u>\$18,862</u>

See accompanying notes to the basic financial statements

**Defiance Township, Defiance County**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual -Budget Basis*  
*Gasoline Tax Fund*  
*For the Year Ended December 31, 2004*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts</b>				
Intergovernmental	\$ 46,869	\$ 46,869	\$ 67,226	\$ 20,357
Interest	691	691	466	(225)
<i>Total receipts</i>	<u>47,560</u>	<u>47,560</u>	<u>67,692</u>	<u>20,132</u>
<b>Disbursements</b>				
Current:				
Public Works	102,473	102,473	65,047	37,426
Debt Service:				
Redemption of Principal	3,300	3,300	3,270	30
Interest and Other Fiscal Charges	1,100	1,100	1,067	33
<i>Total Disbursements</i>	<u>106,873</u>	<u>106,873</u>	<u>69,384</u>	<u>37,489</u>
<i>Net Change in Fund Balance</i>	(59,313)	(59,313)	(1,692)	57,621
<i>Fund Balance Beginning of Year</i>	<u>59,313</u>	<u>59,313</u>	<u>60,446</u>	<u>1,133</u>
<i>Fund Balance End of Year</i>	<u>\$0</u>	<u>\$0</u>	<u>\$58,754</u>	<u>\$58,754</u>

See accompanying notes to the basic financial statements

**Defiance Township, Defiance County**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual -Budget Basis*  
*Road and Bridge Fund*  
*For the Year Ended December 31, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$55,322	\$55,322	\$53,499	(\$1,823)
Intergovernmental	3,678	3,678	7,203	3,525
Other			2,054	2,054
<i>Total receipts</i>	59,000	59,000	62,756	3,756
<b>Disbursements</b>				
Current:				
Public Works	181,235	181,235	167,791	13,444
Debt Service:				
Redemption of Principal	3,300	3,300	3,270	30
Interest and Other Fiscal Charges	1,100	1,100	1,067	33
<i>Total Disbursements</i>	185,635	185,635	172,128	13,507
<i>Net Change in Fund Balance</i>	(126,635)	(126,635)	(109,372)	17,263
<i>Fund Balance Beginning of Year</i>	126,635	126,635	136,679	10,044
<i>Fund Balance End of Year</i>	\$0	\$0	\$27,307	\$27,307

See accompanying notes to the basic financial statements

**Defiance Township, Defiance County**  
*Statement of Receipts, Disbursements and Changes*  
*In Fund Balance - Budget and Actual -Budget Basis*  
*Fire District Fund*  
*For the Year Ended December 31, 2004*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Receipts</b>				
Property and Other Local Taxes	\$61,500	\$61,500	\$56,314	(\$5,186)
Intergovernmental			6,792	6,792
<i>Total receipts</i>	<u>61,500</u>	<u>61,500</u>	<u>63,106</u>	<u>1,606</u>
<b>Disbursements</b>				
Current:				
Public Safety	<u>61,500</u>	<u>61,500</u>	<u>48,858</u>	<u>12,642</u>
<i>Total Disbursements</i>	<u>61,500</u>	<u>61,500</u>	<u>48,858</u>	<u>12,642</u>
<i>Net Change in Fund Balance</i>	0	0	14,248	14,248
<i>Fund Balance Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>\$14,248</u></u>	<u><u>\$14,248</u></u>

See accompanying notes to the basic financial statements



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## Defiance Township, Defiance County

Notes to the Financial Statements  
December 31, 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Description of the Entity and Reporting 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 services and emergency medical services.

A reporting entity is comprised of the primary government, component units and other organizations included ensuring that the basic financial statements are not misleading. The Township's management believes these financial statements present all activities for which the Township is financially accountable.

#### B. Fund Accounting

The Township uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Township functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Township are grouped into the governmental category.

Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Cash disbursements are assigned to the fund from which they are paid. The difference between governmental fund assets and cash disbursements is reported as fund balance. The following are the Township's major governmental funds:

##### 1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund. The General fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

##### 2. Motor Vehicle License Tax Fund

This fund receives motor vehicle registration fees to pay for constructing, maintaining, and repairing Township roads and bridges.

##### 3. Gasoline Tax Fund

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

##### 4. Road and Bridge Fund

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

## Defiance Township, Defiance County

Notes to the Financial Statements  
December 31, 2004  
(Continued)

### 5. Fire District Fund

This fund receives property tax money for providing fire protection and emergency medical services.

The other governmental funds of the Township account for motor vehicle license fees and capital project grants whose use is restricted to a particular purpose.

### C. Basis of Presentation

For fiscal year 2004, the Township has implemented the provisions of Governmental Auditing Standards Board (GASB) Number 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement note disclosures. However, there are no adjustments to beginning fund balances since the basis of accounting has not changed. The Township's basic financial statements consist of government – wide statements, including a statement of net cash assets and a statement of activities, and the fund statements that provide a more detailed level of financial information.

### D. Government – wide Financial Statements

The statement of net cash assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government.

The statement of net assets – modified cash basis presents the cash basis financial condition of governmental activities of the Township at year – end. The statement of activities – modified cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the Township's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program cash receipts include charges paid by the recipients of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the County. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self – financing or draws from the general cash receipts of the Township.

### E. Fund Financial Statements

During the year, the Township segregates transactions to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non – major funds are aggregated and presented in a single column.

## Defiance Township, Defiance County

Notes to the Financial Statements  
December 31, 2004  
(Continued)

### F. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

### G. 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. Appropriations lapse at year end.

#### 2. Estimated Resources

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

#### 3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

### H. Cash, Cash Equivalents and Investments

The Township deposits and invests cash from all funds in a common pool. The financial statements present each fund's share of interest in the pool as equity in pooled cash and cash equivalents on the financial statements.

The Township values investments and cash equivalents at cost. For presentation on the financial statements, the District classifies investments of the cash management pool as cash equivalents.

During fiscal year 2004, Interest receipts were credited to the general fund, \$907, including \$372 assigned from other Township funds, the motor vehicle license tax fund, \$175, the gasoline tax fund, \$466, and the permissive motor vehicle license tax fund, \$38.

## Defiance Township, Defiance County

Notes to the Financial Statements  
December 31, 2004  
(Continued)

### I. Inventory and Prepaid Items

On the modified cash-basis of accounting, inventories of supplies items are reported as disbursements when purchased.

### J. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

### K. Long-term Obligations

These modified-cash basis financial statements do not report liabilities for bonds and other long-term obligations. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments.

### L. Net Assets

The statements report restricted net assets when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on their use.

The Township first applies restricted resources when incurring a disbursement for which it may use either restricted or unrestricted resources.

## 2. DEPOSITS AND INVESTMENTS

Ohio law restricts deposits and investments to the following:

- Commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts;
- Money market deposits;
- Savings accounts or certificates of deposit;
- United States Treasury securities, or securities of its agencies or instrumentalities the federal government guarantees;
- No-load money market mutual funds consisting exclusively of obligations described in (4) above and repurchase agreements secured by such obligations;
- Bonds and obligations of the State of Ohio or Ohio local governments
- The State Treasurer's investment pool (STAR Ohio, a Rule 2-a7-like pool);
- Certain bankers' acceptances and commercial paper notes;
- Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

## Defiance Township, Defiance County

Notes to the Financial Statements  
December 31, 2004  
(Continued)

An investment must mature within five years from the purchase date unless matched to a specific Township obligation or debt and must be purchased with the expectation it will be held to maturity. Investments may only be made through specified dealers and institutions.

**Undeposited Cash** - At year-end, the Township had no undeposited cash on hand, included as part of Equity *in pooled cash and cash equivalents*.

**Deposits** - At year-end, the carrying amount of the Township's deposits was \$180,310 and the bank balance was \$200,174. \$100,000 of the bank balance was covered by federal depository insurance and \$100,174 was uninsured and uncollateralized. Although the Township followed all state statutory requirements for these deposits, noncompliance with federal requirements could potentially subject the Township to a successful claim by the Federal Deposit Insurance Corporation.

### 3. PROPERTY TAX

Property taxes are levied and assessed on a calendar year basis.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the Township. Real property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Real property taxes received in calendar year 2004 were levied after April 1, 2003, on the assessed value listed as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenue received in calendar 2004 represents collections of calendar year 2003 taxes. Public utility real and tangible personal property taxes received in calendar year 2004 became a lien December 31, 2002, were levied after April 1, 2003 and are collected in 2004 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2004 (other than public utility property) represents the collection of 2004 taxes. Tangible personal property taxes received in calendar year 2004 were levied after April 1, 2003, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20.

The Township receives property taxes from Defiance County. The County Auditor periodically remits to the Township its portion of the taxes collected.

On November 5, 2003, the voters approved a 2 mill five year levy for fire protection and emergency medical services. Collections on this additional levy began in January of 2004.

**Defiance Township, Defiance County**

Notes to the Financial Statements  
December 31, 2004  
(Continued)

The assessed values upon which the fiscal year 2004 taxes were collected are:

	<u>Amount</u>	<u>Percent</u>
Agriculture/Residential & Other Real Estate Property	\$ 26,709,370	85%
Public Utility Personal Property	3,218,020	10%
Tangible Personal Property	1,504,244	5%
Total	<u>\$ 31,431,634</u>	<u>100%</u>

Tax rate per \$1,000 of Assessed Valuation 4.00

**4. DEBT**

The changes in the Township's long-term obligations during the year consist of the following:

	<u>Principal Outstanding at 12/31/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding at 12/31/04</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities</b>					
Lease Purchase Obligations	\$ 55,089		\$ 9,810	\$ 45,279	\$ 10,380
Promissory Note		\$ 56,583		56,583	
Total	<u>\$ 55,089</u>	<u>\$ 56,583</u>	<u>\$ 9,810</u>	<u>\$ 101,862</u>	<u>\$ 10,380</u>

The Township entered into a lease – purchase agreement to finance a dump truck and plowing equipment for Township road maintenance. The interest rate on the agreement is 5.8%. The final payment of this agreement is due by January 15, 2009. This agreement is secured by an exclusive lien on the dump truck and plowing equipment.

On January 25, 2005, the Township entered into a promissory note with a local bank to finance a dump truck and plowing equipment for Township road maintenance. The interest rate on this note is 3.65%. This note will mature on January 25, 2008. This note is secured by the dump truck and the Township's depository accounts.

The lease obligation and promissory note are paid from the Township's road funds.

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

**Defiance Township, Defiance County**

Notes to the Financial Statements  
December 31, 2004  
(Continued)

Year ending December 31:	Lease Purchase Oligation	Promissory Notes
2005	\$13,011	\$1,095
2006	13,010	20,705
2007	13,011	19,968
2008	13,010	19,232
Total	\$52,042	\$61,000

**5. DEFINED PENSION BENEFIT PLAN**

The Township participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a financial report, obtainable by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$5,602, \$4,686, and \$4,428 respectively; all amounts have been contributed for 2004, 2003 and 2002.

**6. POSTEMPLOYMENT BENEFITS**

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local



## Defiance Township, Defiance County

### Notes to the Financial Statements December 31, 2004 (Continued)

government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$2,347. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefits recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

## Defiance Township, Defiance County

Notes to the Financial Statements  
December 31, 2004  
(Continued)

### 7. RISK MANAGEMENT

#### Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). 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 Coverage

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

#### Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

#### 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, 2003 and 2002 (the latest information available):

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	(11,791,300)	(9,197,512)
Retained earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>

**Defiance Township, Defiance County**

Notes to the Financial Statements  
December 31, 2004  
(Continued)

<u>Property Coverage</u>	<u>2003</u>	2002
Assets	\$6,791,060	\$6,596,996
Liabilities	<u>(750,956)</u>	<u>(1,204,326)</u>
Retained earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' 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 43512-3706

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Defiance Township, Defiance County, (the Township) as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements and have issued our report thereon dated June 8, 2005, wherein we noted that the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Township's management dated June 8, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **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, providing an opinion 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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. In a separate letter to the Township's management dated June 8, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

June 8, 2005

Defiance Township, Defiance County

Schedule of Findings  
December 31, 2004

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

**FINDING NUMBER 2004-001**

**Finding for Recovery**

Mary Ankney, a cemetery maintenance employee of the Township, submitted time sheets supporting 415.5 hours worked for the period January 2004 through December 2004. She was paid by Township for 468.3 hours worked during that time period.

As a result, Mrs. Ankney was overpaid by 52.8 hours at \$9.50 per hour (the rate authorized by the Board of Trustees) or \$501.60.

In accordance with the foregoing facts and pursuant to O.R.C. §117.28, a finding for recovery for public money illegally expended is hereby issued Mary Ankney, Township cemetery maintenance employee, Tim Houck, Township Clerk, and Ohio Township Association Risk Management Authority, Mr. Houck's bonding company, jointly and severally, in the amount of \$501.60 in favor of the Township's General Fund.

**FINDING NUMBER 2004-002**

**Noncompliance Citation**

**Ohio Revised Code § 5705.41(D)(1)** prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The Township has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

**FINDING NUMBER 2004-002  
(Continued)**

2. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

In 2004, ninety five percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township’s funds exceeding budgetary spending limitations, we recommend that the Clerk certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, “then and now” certification should be used.

We recommend the Township certify purchases to which § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of § 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.



**Defiance Township, Defiance County**

Schedule of Prior Audit Findings  
December 31, 2004

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2003-001	Revised Code §5705.10 incorrect fund account postings	No	Partially corrected. Reported as a management letter comment.
2003-002	Revised Code §5705.36 (3) amended certificate for new monies.	Yes	
2003-003	Revised Code §5705.39 appropriations exceeded estimated resources	Yes	
2003-004	Revised Code §5705.41 (D) (1) improper fiscal officer's certification.	No	Not corrected. Reissued as finding #2004-002.





**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  
AUGUST 4, 2005**