



**Auditor of State
Betty Montgomery**

FARMER TOWNSHIP
DEFIANCE COUNTY

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**Auditor of State
Betty Montgomery**

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

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

June 29, 2005

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of Farmer Township, Defiance County, (the Township) as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Farmer Township, Defiance County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. 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.



Betty Montgomery
Auditor of State

June 29, 2005

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$16,002	\$45,302		\$61,304
Intergovernmental	44,029	94,279	\$114,710	253,018
Special Assessments			16,254	16,254
Licenses, Permits, and Fees		7,600		7,600
Earnings on Investments	432	722		1,154
Other Revenue	574	9,999		10,573
	<u>61,037</u>	<u>157,902</u>	<u>130,964</u>	<u>349,903</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	60,268	1,039		61,307
Public Safety	1,677	5,215		6,892
Public Works	5,602	68,360		73,962
Health		11,287		11,287
Debt Service:				
Redemption of Principal		12,201		12,201
Interest and Fiscal Charges		2,282		2,282
Capital Outlay		5,266	176,085	181,351
	<u>67,547</u>	<u>105,650</u>	<u>176,085</u>	<u>349,282</u>
Total Cash Disbursements				
Total Cash Receipts Over/ (Under) Cash Disbursements	<u>(6,510)</u>	<u>52,252</u>	<u>(45,121)</u>	<u>621</u>
Other Financing Receipts:				
Proceeds from Sale of Public Debt:				
Loan Proceeds			61,375	61,375
			<u>61,375</u>	<u>61,375</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(6,510)	52,252	16,254	61,996
Fund Cash Balances, January 1	<u>27,757</u>	<u>68,727</u>	<u>41,116</u>	<u>137,600</u>
Fund Cash Balances, December 31	<u>\$21,247</u>	<u>\$120,979</u>	<u>\$57,370</u>	<u>\$199,596</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$43,845	\$44,487		\$88,332
Intergovernmental	43,712	79,785	\$28,930	152,427
Special Assessments			14,542	14,542
Licenses, Permits, and Fees		8,395		8,395
Earnings on Investments	909	499		1,408
Other Revenue	1,571	2,934		4,505
	<u>90,037</u>	<u>136,100</u>	<u>43,472</u>	<u>269,609</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	78,009	953		78,962
Public Safety	1,826	10,215		12,041
Public Works	20,266	96,205		116,471
Health		10,725		10,725
Debt Service:				
Redemption of Principal		11,753		11,753
Interest and Fiscal Charges		2,730		2,730
Capital Outlay	35,165	16,295	28,930	80,390
	<u>135,266</u>	<u>148,876</u>	<u>28,930</u>	<u>313,072</u>
Total Cash Disbursements				
Total Cash Receipts Over/ (Under) Cash Disbursements	(45,229)	(12,776)	14,542	(43,463)
Fund Cash Balances, January 1	72,986	81,503	26,574	181,063
Fund Cash Balances, December 31	<u>\$27,757</u>	<u>\$68,727</u>	<u>\$41,116</u>	<u>\$137,600</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Farmer 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 Williams County Emergency Medical Services to provide ambulance services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting 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, as the Auditor of State prescribes or permits.

C. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

Fire District Fund - This fund receives property tax money for maintaining fire protection services for the Township's residents.

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project fund:

Ohio Public Works Commission Fund - The Township received a grant from the State of Ohio to rebuild a mile of McCavit Road.

D. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function 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.

A summary of 2004 and 2003 budgetary activity appears in Note 3.

E. Property, Plant, and Equipment

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

F. 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.

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2. EQUITY IN POOLED CASH

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

	2004	2003
Demand deposits	\$199,596	\$137,600

Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Township.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$64,675	\$61,037	(\$3,638)
Special Revenue	137,866	157,902	20,036
Capital Projects	248,062	192,339	(55,723)
Total	\$450,603	\$411,278	(\$39,325)

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$94,756	\$67,547	\$27,209
Special Revenue	205,385	105,650	99,735
Capital Projects	287,725	176,085	111,640
Total	\$587,866	\$349,282	\$238,584

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$83,667	\$90,037	\$6,370
Special Revenue	138,408	136,100	(2,308)
Capital Projects	262,960	43,472	(219,488)
Total	\$485,035	\$269,609	(\$215,426)

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$162,040	\$135,532	\$26,508
Special Revenue	238,646	148,876	89,770
Capital Projects	28,930	28,930	0
Total	\$429,616	\$313,338	\$116,278

The following occurred contrary to Ohio law:

- Improper allocations of revenues of \$12,847 that should have been credited to the General, Road and Bridge, Fire District, Gas Tax and Tax Increment Financing funds. These funds should have received \$3,686, \$1,621, \$3,246, \$2,842, and \$1,452, respectively. These statements include audit adjustments to reflect these transactions in the proper funds.
- Cash deficit fund balances existed in the Road and Bridge fund at December 31, 2004 (\$1,989) and the Permissive Motor Vehicle License Tax fund at December 31, 2003 (\$1,991).
- The actual amounts available for appropriations were less than the amounts estimated in the official certificate and the current appropriations in the Ohio Public Works Commission Issue II McCavit Road Improvements Fund during 2004, Road and Bridge Fund and the Cemetery Fund during 2003.
- The Road and Bridge Fund had appropriations which exceeded estimated resources in 2003.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt 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.

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

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

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	Principal	Interest Rate
General Obligation Loan	\$59,950	3.325%
Ohio Public Works Commission Loan	98,171	0.00%
Total	\$158,121	

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

On June 30, 2002, the Township entered into a general obligation loan with a local bank to finance the purchase of a tank truck to be used for fire protection. This loan will mature on April 1, 2009. This loan is secured by the tank truck purchased. The loan is repaid from the Township's Fire District Fund.

In 2003, the Township obtained an interest free loan in the amount of \$98,171 from the Ohio Public Works Commission. The loan proceeds were used for the reconstruction of one mile of McCavit road. This loan has a 20 year term and will mature on January 1, 2025. In the event of default, the Ohio Public Works Commission may, at its discretion, direct the Defiance County Treasurer to pay the amount due from the funds which would otherwise be appropriated to the Township from Defiance County's undivided local government fund. The loan will be repaid from the Tax Increment Financing fund.

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

Year ending December 31:	General Obligation Loan	Ohio Public Works Commission Loan
2005	\$14,483	\$4,908
2006	14,483	4,909
2007	14,483	4,908
2008	14,483	4,909
2009	7,243	4,908
2010 - 2014		24,543
2015 - 2019		24,543
2020 - 2024		24,543
Total	\$65,175	\$98,171

6. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, members of OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2004.

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

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

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



**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***

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

To the Board of Trustees:

We have audited the financial statements of Farmer Township (the Township) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated June 29, 2005 wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted 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 opinion 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 29, 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 through 2004-005.

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.

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

Betty Montgomery
Auditor of State

June 29, 2005

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-001

Finding for Recovery

Ohio Constitution, Article I, Section 20, generally, prohibits public officials from receiving increases in compensation in the middle of a term of office. Further, Am. Sub H.B. No. 712, 2000, amended Ohio Revised Code § 507.09 to increase the compensation of Township Clerks effective only for those officials who began office after December 8, 2000. The term of office for Janet Vollmer, former Clerk, began on April 1, 2000, thus not entitling her to an increase in compensation under House Bill 712 until April 1, 2004. Mrs. Vollmer was paid the higher rate of pay specified in House Bill 712 for the first three months of 2004. This resulted in an overpayment of \$112.23.

In accordance with the facts and pursuant to Ohio Revised Code §117.28, a finding for recovery for public monies illegally expended is hereby issued against Janet Vollmer, former Clerk, and her bonding company, The Cincinnati Insurance Company, jointly and severally, in favor of the General Fund in the amount of one hundred twelve dollars and twenty three cents (\$112.23).

FINDING NUMBER 2004-002

Noncompliance Citation

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

The following monies were not recorded in the proper fund:

- Homestead and rollback deductions from real estate property tax billings in the amount of \$6,319 which were reimbursed from the State of Ohio were credited to the Township's General fund instead of being apportioned to the Road and Bridge, Fire District and Tax Increment Financing funds. These funds should have received \$1,621, \$3,246, and \$1,452.
- A distribution of local government and local government revenue assistance monies in the amount of \$3,686 from the County Auditor was credited to the Road and Bridge fund. These monies should have been credited to the General Fund.
- A distribution of gas tax monies in the amount of \$2,842 was recorded in the Permissive Motor Vehicle License Tax fund. These monies should have been credited to the Gas Tax fund.

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

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

Ohio Revised Code § 5705.10 also requires that monies paid into any fund shall be used only for the purposes for which such fund is established. As a result of these adjustments, in 2003 the Road and Bridge Fund had a deficit fund balance of \$1,989, and in 2004 the Permissive Motor Vehicle License Tax Fund had a deficit fund balance of \$1,991. The existence of a negative fund balance means that monies from other funds have been used for purposes other than for which those funds were established.

We recommend that the Clerk record homestead and rollback reimbursements according to the allocation listed on the tax apportionment sheets received from the County Auditor and all other distributions from the County Auditor in the funds established on the Township's accounting system to account for these monies. Proper fund allocation of these monies will provide an accurate picture of the Township's financial position which can prevent deficit fund balances.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Revised Code § 5705.36 (A) (4) states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

The actual amounts available for appropriations were less than the amounts estimated in the official certificate and the current level of appropriations in the following funds:

	<u>Actual Resources</u>	<u>Estimated Resources</u>	<u>Total Appropriations</u>
<u>2004</u>			
Ohio Public Works Commission Issue II McCavit Road Improvements Fund	\$176,085	\$234,710	\$234,710
<u>2003</u>			
Road and Bridge Fund	\$18,230	\$31,668	\$54,496
Cemetery Fund	35,674	37,593	37,500

The Clerk should have requested an amended certificate of estimated resources from the commission which would have reduced the estimated resources to the level of the actual resources available for appropriations. Appropriations in these funds should have also been reduced to the level of the actual resources available for appropriations.

We recommend that Clerk compare actual revenues with estimated revenues during the year and make changes when necessary.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Revised Code § 5705.39 requires the total appropriations from each fund not exceed the total of the estimated revenue available for expenditures. In 2003, the Road and Bridge fund had appropriations of \$54,496 which exceeded the estimated resources of \$31,668.

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

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

FINDING NUMBER 2004-005

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.

- A. "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.

- B. 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.

FINDING NUMBER 2004-005
(Continued)

- C. 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.

Eighteen 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.

**FARMER TOWNSHIP
DEFIANCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-001	Revised Code § 5705.10 incorrect fund account postings	No	Not corrected. Reissued as finding number 2004-002.
2002-002	Revised Code § 5705.40 amendment of appropriations	Yes	
2002-003	Revised Code § 5705.41(B) Expenditures exceeded appropriations	Yes	
2002-004	Farmer Township Resolution No. 129015 §5 establishment of a Public Improvement Tax Increment Equivalent Fund	Yes	



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FARMER TOWNSHIP

DEFIANCE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 9, 2005**