



Dave Yost • Auditor of State



FARMER TOWNSHIP  
DEFIANCE COUNTY

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Farmer Township  
Defiance County  
01560 Wonderly Road  
Edgerton, Ohio 43517-9547

To the Board of Trustees:

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

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of Farmer Township, Defiance County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015.

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

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

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

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

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

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

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

As described in Note 2 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section

117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Township does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2016 and 2015, and the respective changes in financial position thereof for the years then ended.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of Farmer Township, Defiance County, Ohio as of December 31, 2016 and 2015, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2017, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

December 21, 2017

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$49,977	\$64,014		\$113,991
Charges for Services		7,317		7,317
Licenses, Permits and Fees		6,674		6,674
Intergovernmental	36,121	116,573	\$51,419	204,113
Earnings on Investments	224	106		330
Miscellaneous	1,333	1,805	19,639	22,777
<i>Total Cash Receipts</i>	<u>87,655</u>	<u>196,489</u>	<u>71,058</u>	<u>355,202</u>
<b>Cash Disbursements</b>				
Current:				
General Government	59,211	595		59,806
Public Safety		39,749		39,749
Public Works	4,163	215,023		219,186
Health		11,662		11,662
Conservation-Recreation			110	110
Capital Outlay		4,601	51,419	56,020
Debt Service:				
Principal Retirement		9,008	5,000	14,008
Interest and Fiscal Charges		124		124
<i>Total Cash Disbursements</i>	<u>63,374</u>	<u>280,762</u>	<u>56,529</u>	<u>400,665</u>
<i>Excess of Receipts Over/(Under) Disbursements</i>	<u>24,281</u>	<u>(84,273)</u>	<u>14,529</u>	<u>(45,463)</u>
<b>Other Financing Receipts (Disbursements)</b>				
Transfers In		84,680		84,680
Transfers Out	(84,680)			(84,680)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(84,680)</u>	<u>84,680</u>		
<i>Net Change in Fund Cash Balances</i>	(60,399)	407	14,529	(45,463)
<i>Fund Cash Balances, January 1</i>	<u>229,127</u>	<u>128,505</u>	<u>98,832</u>	<u>456,464</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		107,524		107,524
Committed		21,388	112,361	133,749
Assigned	130,671		1,000	131,671
Unassigned	38,057			38,057
<i>Fund Cash Balances, December 31</i>	<u>\$168,728</u>	<u>\$128,912</u>	<u>\$113,361</u>	<u>\$411,001</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, 2016**

**1. REPORTING ENTITY**

The constitution and laws of the State of Ohio establish the rights and privileges of Farmer Township, Defiance County, Ohio (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, and fire protection. The Township contracts with the Villages of Sherwood and Hicksville to provide emergency medical services.

The Township participates in the Ohio Township Association Risk Management Authority, a public entity risk pool. Note 10 to the financial statements provides additional information for this entity.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

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

***Fund Accounting***

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

**2. Special Revenue Funds**

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

Road and Bridge Fund - The Road and Bridge Fund accounts for property tax money for constructing, maintaining, and repairing Township roads and bridges.

Gasoline Tax Fund - The Gasoline Tax Fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township.

**3. Capital Project Funds**

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



**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

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

***Accounting Basis***

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

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

***Budgetary Process***

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 4.

***Deposits and Investments***

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

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

**2. Restricted**

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

**3. Committed**

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

**4. Assigned**

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

**5. Unassigned**

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

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

***Capital Assets***

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

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

**Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unusual leave. The financial statements do not include a liability for unpaid leave.

**3. DEPOSITS**

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

	2016
Demand deposits	\$143,964
Certificate of deposit	101,336
Other time deposits (savings account)	165,701
Total deposits	\$411,001

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation; collateralized by securities specifically pledged by the financial institution to the Township; or collateralized by the financial institution's public entity deposit pool.

**4. BUDGETARY ACTIVITY**

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

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$82,750	\$87,655	\$4,905
Special Revenue	196,950	281,169	84,219
Capital Projects	71,500	71,058	(442)
Total	\$351,200	\$439,882	\$88,682

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$187,076	\$148,554	\$38,522
Special Revenue	448,546	290,162	158,384
Capital Projects	169,332	56,529	112,803
Total	\$804,954	\$495,245	\$309,709

**5. COMPLIANCE**

Contrary to Ohio Rev. Code § 5705.10, homestead and rollback related to the Township's road and bridge tax levy was credited to the improper fund in 2016.

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

**6. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

**7. DEBT**

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$41,632	0%

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 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 Township's Tax Increment Financing (TIF) Fund.

In April 2011, the Township entered into a promissory note with a local bank to finance the purchase of a 2011 Ford brush truck to be used for fire protection. This loan was paid off in April 2016. The loan was repaid from the Township's Fire District Fund.

Amortization of the above debt is scheduled as follows:

	Ohio Public Works Commission Loan
Year ending December 31:	
2017	\$4,818
2018	4,909
2019	4,909
2020	4,909
2021	4,909
2022-2025	17,178
Total	\$41,632

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

**8. DEFINED PENSION BENEFIT PLANS**

***Ohio Public Employees Retirement System***

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

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

***Social Security***

Two of the Township's employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

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

**9. POSTEMPLOYMENT BENEFITS**

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

**10. RISK MANAGEMENT**

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

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

***Risk Pool Membership***

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage to its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York of Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**Casualty and Property Coverage**

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement,

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

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

	<b>2016</b>
Assets	\$38,473,283
Liabilities	(8,244,140)
Net Position	\$30,229,143

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

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

<b><u>Contributions to OTARMA</u></b>
<b><u>2016</u></b>
\$14,188

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

**11. MISCELLANEOUS RECEIPTS**

Miscellaneous receipts in the Capital Projects fund type consisted of tax increment financing monies from a local business which is collected and distributed to the Township by Defiance County.

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016  
(Continued)**

**12. INTERFUND TRANSFERS**

For the year ended December 31, 2016, the General Fund transferred \$84,680 to the Special Revenue Road and Bridge Fund to cover payments for road related projects.

Transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Transfers are also used to move unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$50,143	\$64,225		\$114,368
Charges for Services		8,802		8,802
Licenses, Permits and Fees		10,139		10,139
Intergovernmental	41,135	116,763		157,898
Earnings on Investments	266	61		327
Miscellaneous	1,951	45,276	\$19,661	66,888
<i>Total Cash Receipts</i>	<u>93,495</u>	<u>245,266</u>	<u>19,661</u>	<u>358,422</u>
<b>Cash Disbursements</b>				
Current:				
General Government	61,624	1,231		62,855
Public Safety		33,756		33,756
Public Works	23,543	157,616		181,159
Health		9,918		9,918
Conservation-Recreation			60	60
Capital Outlay	150	90,188		90,338
Debt Service:				
Principal Retirement		17,681	4,909	22,590
Interest and Fiscal Charges		632		632
<i>Total Cash Disbursements</i>	<u>85,317</u>	<u>311,022</u>	<u>4,969</u>	<u>401,308</u>
<i>Excess of Receipts Over/(Under) Disbursements</i>	<u>8,178</u>	<u>(65,756)</u>	<u>14,692</u>	<u>(42,886)</u>
<b>Other Financing Receipts (Disbursements)</b>				
Sale of Capital Assets			1,000	1,000
Transfers In		91,860		91,860
Transfers Out	(91,860)			(91,860)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(91,860)</u>	<u>91,860</u>	<u>1,000</u>	<u>1,000</u>
<i>Net Change in Fund Cash Balances</i>	(83,682)	26,104	15,692	(41,886)
<i>Fund Cash Balances, January 1</i>	<u>312,809</u>	<u>102,401</u>	<u>83,140</u>	<u>498,350</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		102,053		102,053
Committed		26,452	97,832	124,284
Assigned	104,326		1,000	105,326
Unassigned	124,801			124,801
<i>Fund Cash Balances, December 31</i>	<u>\$229,127</u>	<u>\$128,505</u>	<u>\$98,832</u>	<u>\$456,464</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, 2015**

**1. REPORTING ENTITY**

The constitution and laws of the State of Ohio establish the rights and privileges of Farmer Township, Defiance County, Ohio (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, and fire protection. The Township contracts with the Villages of Sherwood and Hicksville to provide emergency medical services.

The Township participates in the Ohio Township Association Risk Management Authority, a public entity risk pool. Note 10 to the financial statements provides additional information for this entity.

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

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

***Fund Accounting***

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

**1. General Fund**

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

**2. Special Revenue Funds**

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

Road and Bridge Fund - The Road and Bridge Fund accounts for property tax money for constructing, maintaining, and repairing Township roads and bridges.

Gasoline Tax Fund - The Gasoline Tax Fund accounts for and reports that portion of the State gasoline tax restricted for maintenance and repair of roads within the Township.

Cemetery Fund - The Cemetery Fund receives money collected for the sale of cemetery lots, grave openings and closing, and other miscellaneous related receipts restricted for cemetery purposes.

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**3. Capital Project Funds**

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

Tax Increment Financing (TIF) Fund – The TIF Fund accounts for payments received in lieu of taxes on property located within the Township designated as a TIF parcel in accordance with the Township's TIF agreement.

***Accounting Basis***

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

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

***Budgetary Process***

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2015 budgetary activity appears in Note 4.

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

***Deposits and Investments***

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

**1. Nonspendable**

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

**2. Restricted**

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

**3. Committed**

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

**4. Assigned**

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

**5. Unassigned**

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

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

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**Capital Assets**

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

**Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unusual leave. The financial statements do not include a liability for unpaid leave.

**3. DEPOSITS**

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

	2015
Demand deposits	\$189,714
Certificate of deposit	101,133
Other time deposits (savings account)	165,617
Total deposits	\$456,464

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation; collateralized by securities specifically pledged by the financial institution to the Township; or collateralized by the financial institution's public entity deposit pool.

**4. BUDGETARY ACTIVITY**

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

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$92,800	\$93,495	\$695
Special Revenue	241,805	337,126	95,321
Capital Projects	19,000	20,661	1,661
Total	\$353,605	\$451,282	\$97,677

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$273,063	\$178,200	\$94,863
Special Revenue	474,289	318,341	155,948
Capital Projects	102,140	4,969	97,171
Total	\$849,492	\$501,510	\$347,982

**5. COMPLIANCE**

Contrary to Ohio Rev. Code § 5705.10, proceeds from the sale of a capital asset and cemetery related disbursements were posted to improper funds in 2015.

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**6. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

**7. DEBT**

Debt outstanding at December 31, 2015 was as follows:

	Principal	Interest Rate
Promissory Note - Brush Truck	\$9,032	2.71%
Ohio Public Works Commission Loan	46,631	0%
Total	\$55,663	

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 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 Township's Tax Increment Financing (TIF) Fund.

In April 2011, the Township entered into a promissory note with a local bank to finance the purchase of a 2011 Ford brush truck to be used for fire protection. This loan will mature on April 21, 2016. The loan will be repaid from the Township's Fire District Fund.

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

	Promissory Note	Ohio Public Works Commission Loan
Year ending December 31:		
2016	\$9,136	\$4,909
2017		4,909
2018		4,909
2019		4,909
2020		4,909
2021-2025		22,086
Total	\$9,136	\$46,631

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**8. DEFINED PENSION BENEFIT PLANS**

***Ohio Public Employees Retirement System***

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

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

***Social Security***

Two of the Township's employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

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

**9. POSTEMPLOYMENT BENEFITS**

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

**10. RISK MANAGEMENT**

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

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

***Risk Pool Membership***

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage to its members. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York of Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**Casualty and Property Coverage**

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement,

**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2015, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

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

Financial Position

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

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

At December 31, 2015, the liabilities above include approximately \$7.8 million of estimated incurred claims payable. The assets above also include approximately \$7.7 million of unpaid claims to be billed to approximately 989 members in the future, as of December 31, 2015. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Township's share of these unpaid claims collectible in future years is approximately \$7,000

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

<b><u>Contributions to OTARMA</u></b>
<b><u>2015</u></b>
\$13,532

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



**FARMER TOWNSHIP  
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**11. MISCELLANEOUS RECEIPTS**

Miscellaneous receipts in the Special Revenue fund type primarily consisted of payments for the sale of cemetery lots as well as two reimbursements from the Farmer Cemetery Association for the purchase of two new cemetery mowers as well as for the cost of a new building to house the new mowers at Farmer Cemetery.

Miscellaneous receipts in the Capital Projects fund type primarily consisted of tax increment financing monies from a local business which is collected and distributed to the Township by Defiance County.

**12. INTERFUND TRANSFERS**

For the year ended December 31, 2015, the General Fund transferred \$75,044 to the Special Revenue Road and Bridge Fund as well as \$16,816 to the Special Revenue Cemetery Fund to cover payments related to road related projects, road machinery, and/or cemetery related purchases during the year.

Transfers are used to move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. Transfers are also used to move unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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# Dave Yost • Auditor of State

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

Farmer Township  
Defiance County  
01560 Wonderly Road  
Edgerton, Ohio 43517-9547

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of Farmer Township, Defiance County, Ohio (the Township) as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated December 21, 2017, wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 and 2016-002 to be material weaknesses.

***Compliance and Other Matters***

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-001.

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

December 21, 2017

FARMER TOWNSHIP  
DEFIANCE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2016 AND 2015

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

FINDING NUMBER 2016-001

**Noncompliance and Material Weakness**

**Ohio Rev. Code § 5705.10(D)** requires, in part, that 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. Furthermore, pursuant to Ohio Rev. Code § 5705.10(I) all money paid into any fund shall be used only for the purpose for which such fund is established.

In addition, **Ohio Rev. Code § 5705.10(F)** requires that if a permanent improvement of the subdivision is sold, the amount received from it shall be paid into the sinking fund, the bond retirement fund, or into a special fund for the construction or acquisition of permanent improvements. A permanent improvement is defined as any property, asset, or improvement with an estimated life or usefulness of five years or more. [Ohio Rev. Code § 5705.01(E)]

- Homestead and rollback monies totaling \$2,018 related to the Township's road and bridge tax levy were misposted to the General Fund instead of the Special Revenue Road and Bridge Fund in 2016.
- Disbursements totaling \$40,075 for the purchase of two cemetery mowers and to erect a building to house the new mowers were paid from the General Fund instead of the Special Revenue Cemetery Fund in 2015. The Township was reimbursed \$40,075 from the Farmer Cemetery Association for these disbursements and posted the reimbursements to the Cemetery Fund, resulting in an overstatement of the Cemetery Fund and understatement of the General Fund. Adjustments were made to reclassify the disbursements to the Cemetery Fund.
- Proceeds from the sale of a capital asset in the amount of \$1,000 was incorrectly credited to the Special Revenue Road and Bridge Fund instead of the Capital Projects Miscellaneous Permanent Improvements Fund in 2015.

As a result, the Township's financial statements and accounting ledgers did not correctly reflect the financial activity of the Township. The Township's financial statements and accounting records have been adjusted to correct these and other errors in the proper funds.

These posting errors were not identified and corrected prior to the audit due to deficiencies in the Township's financial statement monitoring.

This situation could result in monies being used for purposes other than those prescribed by law. Furthermore, inaccurate posting of transactions impedes the ability of management officials to accurately assess the financial status of the Township.

To help prevent monies from being used for purposes other than those prescribed by law, we recommend the Fiscal Officer review all financial transactions to make sure they are included in the proper fund and account codes as specified in the Ohio Revised Code and the Ohio Township Handbook issued by the Auditor of State.

## FINDING NUMBER 2016-002

### Material Weakness – Monitoring of Financial Statements

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

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

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

- As of December 31, 2016 and 2015, the Special Revenue Road and Bridge Fund balance in the amount of \$19,870 and \$27,452, respectively, was improperly classified as restricted fund balance instead of committed fund balance. Since the inside millage on the Township's road and bridge levy is internally imposed by the Trustees, the fund balance should be reported as committed.
- As of December 31, 2016, several of the Special Revenue fund balances were incorrectly reported as assigned fund balance instead of restricted or committed fund balance due to misclassifying the amount of encumbrances outstanding at year end in each of these funds as assigned. In accordance with GASB 54, if the encumbrances relate to restricted or committed resources, the encumbered amounts should be included with restricted or committed resources. This overstated the assigned fund balance in the following funds and understated the committed fund balance in the Road and Bridge Fund by \$500 as well as the restricted fund balance in the Motor Vehicle License Tax Fund by \$1,000, Gasoline Tax Fund by \$1,000, and Fire District Fund by \$6,900.
- Similarly, as of December 31, 2015, several of the Special Revenue fund balances were misclassified as assigned fund balance instead of restricted fund balance due to improperly reporting the amount of encumbrances outstanding at year end in these funds as assigned. This resulted an overstatement of the assigned fund balance and an understatement of the restricted fund balance in the Gasoline Tax Fund by \$4,102, Cemetery Fund by \$86, and Fire District Fund by \$3,133.

As a result, the Township's financial statements did not correctly reflect the financial activity of the Township. The Township's financial statements and accounting records have been adjusted to reflect these and other discrepancies ranging from \$46 to \$84,680.

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

**Officials' Response:**

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

FARMER TOWNSHIP  
DEFIANCE COUNTY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2016 AND 2015

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2014-001	Material weakness for lack of monitoring of financial transactions.	Not corrected. Reissued as finding 2016-002 in this report.	The client declined to offer an explanation why the finding reoccurred. The Fiscal Officer plans to review future postings of financial activity to make sure they are properly reported in the accounting ledgers and financial statements.





# Dave Yost • Auditor of State

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  
JANUARY 9, 2018