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Napoleon Township Henry County 1002 Fairview Drive Napoleon, Ohio 43545-1946

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.

**Betty Montgomery** Auditor of State

Betty Montgomeny

June 21, 2005

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#### INDEPENDENT ACCOUNTANTS' REPORT

Napoleon Township Henry County 1002 Fairview Drive Napoleon, Ohio 43545-1946

#### To the Board of Trustees:

We have audited the accompanying financial statements of Napoleon Township, Henry 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.

Napoleon Township Henry County Independent Accountants' Report Page 2

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 their 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 and reserves for encumbrances of Napoleon Township, Henry 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 21, 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

Betty Montgomery

June 21, 2005

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

	Governmental Fund Types		
	<u>General</u>	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Local Taxes	\$55,696	\$153,077	\$208,773
Intergovernmental	40,787	87,441	128,228
Charges for Services		8,168	8,168
Licenses, Permits, and Fees		4,974	4,974
Earnings on Investments	3,217	527	3,744
Other Revenue	884	295	1,179
Total Cash Receipts	100,584	254,482	355,066
Cash Disbursements:			
Current:			
General Government	67,010	3,584	70,594
Public Safety	153	109,601	109,754
Public Works	28,449	138,757	167,206
Health	1,367		1,367
Capital Outlay		7,786	7,786
Total Cash Disbursements	96,979	259,728	356,707
Total Cash Receipts Over/			
(Under) Cash Disbursements	3,605	(5,246)	(1,641)
Fund Cash Balances, January 1	225,914	132,733	358,647
Fund Cash Balances, December 31	\$229,519	\$127,487	\$357,006
Reserve for Encumbrances, December 31	\$445	\$67_	\$512

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

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

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Local Taxes	\$55,087	\$149,277		\$204,364
Intergovernmental	115,389	96,505	\$65,456	277,350
Charges for Services		6,937		6,937
Licenses, Permits, and Fees		3,077		3,077
Earnings on Investments	2,207	615		2,822
Other Revenue	1,191	791		1,982
Total Cash Receipts	173,874	257,202	65,456	496,532
Cash Disbursements:				
Current:	05.000	0.040		00.040
General Government	65,303	3,643		68,946
Public Safety	4,000	93,048		97,048
Public Works	27,827	85,433		113,260
Health	1,358	40.500	05.450	1,358
Capital Outlay	27,540	49,520	65,456	142,516
Total Cash Disbursements	126,028	231,644	65,456	423,128
Total Cash Receipts Over				
Cash Disbursements	47,846	25,558		73,404
Fund Cash Balances, January 1	178,068	107,175		285,243
Fund Cash Balances, December 31	\$225,914	\$132,733		\$358,647
Reserve for Encumbrances, December 31	\$585	\$121_		\$706

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

#### 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 Napoleon Township, Henry 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 and general government services. The Township contracts with Napoleon City to provide fire services 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. Cash and Investments

The Township values certificates of deposit at cost.

#### D. Fund Accounting

The Township uses fund accounting to segregate cash that is 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:

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

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

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

Fire District Fund - This fund receives tax revenue for maintaining fire services.

#### 3. Capital Project Fund

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:

<u>Local Transportation Improvement Fund</u> - The Township received a grant from the State of Ohio for project Road "R" from Road 17 to Road 19.

#### E. Budgetary Process

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

#### 1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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 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 carried over, and need not be reappropriated.

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

#### F. 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.

#### 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	\$6,600	\$47,169
Money Market Savings	274,221	\$311,478
Certificates of deposit	76,185	
Total deposits	\$357,006	\$358,647

<u>Deposits</u>: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

#### 3. BUDGETARY ACTIVITY

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

2004 Budgeted vs. Actual Receipts

	Budgeted	Actual	
Fund Type	Receipts	Receipts	Variance
General	\$81,610	\$100,584	\$18,974
Special Revenue	243,900	254,482	10,582
Total	\$325,510	\$355,066	\$29,556

2004 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation	Budgetary		
Fund Type	Authority	Expenditures	Variance	
General	\$307,524	\$97,424	\$210,100	
Special Revenue	376,632	259,795	116,837	
Total	\$684,156	\$357,219	\$326,937	

2003 Budgeted vs. Actual Receipts

	Budgeted	Actual	
Fund Type	Receipts	Receipts	Variance
General	\$80,608	\$173,874	\$93,266
Special Revenue	219,200	257,202	38,002
Capital Projects	65,473	65,456	(17)
Total	\$365,281	\$496,532	\$131,251

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

2003 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation	Budgetary	_
Fund Type	Authority	Expenditures	Variance
General	\$258,676	\$126,613	\$132,063
Special Revenue	326,375	231,765	94,610
Capital Projects	65,473	65,456	17
Total	\$650,524	\$423,834	\$226,690

#### 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.

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

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. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, 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.

#### 6. RISK MANAGEMENT

#### **Risk Pool Membership**

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

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

#### 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):

Casualty Coverage	2003	2002
Assets	\$27,792,223	\$23,757,036
Liabilities	(11,791,300)	(9,197,512)
Retained Earnings	\$16,000,923	\$14,559,524
Property Coverage	2003	2002
Assets	\$6,791,060	\$6,596,996
Liabilities	(750,956)	(1,204,326)
Retained Earnings	\$6,040,104	\$5,392,670

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

Napoleon Township Henry County 1002 Fairview Drive Napoleon, Ohio 43545-1946

#### To the Board of Trustees:

We have audited the financial statements of Napoleon Township (the Township) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated June 21, 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 that the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

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

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our 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 21, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

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

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

**Betty Montgomery** Auditor of State

Betty Montgomeny

June 21, 2005



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## NAPOLEON TOWNSHIP HENRY 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.

**CLERK OF THE BUREAU** 

Susan Babbitt

CERTIFIED AUGUST 4, 2005