



OHIO AUDITOR OF STATE
KEITH FABER



**HIGHLAND TOWNSHIP
DEFIANCE COUNTY
DECEMBER 31, 2019 AND 2018**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Highland Township
Defiance County
15772 Hill Road
Defiance, Ohio 43512-8926

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 Highland Township, Defiance County, Ohio (the Township) as of and for the years ended December 31, 2019 and 2018.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

As described in Note 2 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2019 and 2018, and the respective changes in financial position thereof for the years then ended.

Basis for Additional Opinion Qualification

During 2019 and 2018, the Township expended \$30,623 and \$32,324, respectively, from the Special Revenue Fund to pay trustees' salaries. Ohio Rev. Code Section 505.24(C) restricts the use of the Special Revenue Fund to pay salaries unless proper certifications are provided. Had these amounts been properly expended from the General Fund, the effect would have been to decrease disbursements of the Special Revenue Fund by \$30,623 and \$32,324 and increase the fund cash balances to \$315,574 and \$327,321 for the years ended December 31, 2019 and 2018, respectively. The General Fund disbursements would increase by \$30,623 and \$32,324 and decrease the fund cash balances to (\$7,501) and \$11,228 for the years ended December 31, 2019 and 2018, respectively.

Additional Opinion Qualification

In our opinion, except for the possible effects of the matter described in the *Basis for Additional Opinion Qualification* paragraph, the financial statements, as it relates to the General and Special Revenue Funds referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of Highland Township, Defiance County, Ohio as of December 31, 2019 and 2018, 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.

Unmodified Opinions

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 Highland Township, Defiance County, Ohio for the Capital Projects and Permanent Funds as of December 31, 2019 and for the Permanent Fund as of December 31, 2018, 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.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Township. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2020, 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.



Keith Faber
Auditor of State

Columbus, Ohio

July 20, 2020

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**HIGHLAND 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, 2019**

| | General | Special Revenue | Capital Projects | Permanent | Totals (Memorandum Only) |
|---|-----------------|--------------------|---------------------|----------------|--------------------------------|
| Cash Receipts | | | | | |
| Property and Other Local Taxes | \$23,214 | \$235,350 | | | \$258,564 |
| Charges for Services | | 28,700 | | | 28,700 |
| Licenses, Permits and Fees | 1,297 | 6,050 | | | 7,347 |
| Intergovernmental | 38,990 | 223,369 | \$101,500 | | 363,859 |
| Earnings on Investments | 77 | 40 | | | 117 |
| Miscellaneous | 5,941 | 8,129 | | | 14,070 |
| <i>Total Cash Receipts</i> | <u>69,519</u> | <u>501,638</u> | <u>101,500</u> | | <u>672,657</u> |
| Cash Disbursements | | | | | |
| Current: | | | | | |
| General Government | 57,625 | 43,019 | | | 100,644 |
| Public Safety | | 182,304 | | | 182,304 |
| Public Works | | 268,281 | | | 268,281 |
| Health | | 11,315 | | | 11,315 |
| Human Services | | 1,188 | | | 1,188 |
| Capital Outlay | | 4,258 | 101,500 | | 105,758 |
| Debt Service: | | | | | |
| Principal Retirement | | 28,348 | | | 28,348 |
| Interest and Fiscal Charges | | 5,295 | | | 5,295 |
| <i>Total Cash Disbursements</i> | <u>57,625</u> | <u>544,008</u> | <u>\$101,500</u> | | <u>703,133</u> |
| <i>Net Change in Fund Cash Balances</i> | 11,894 | (42,370) | | | (30,476) |
| <i>Fund Cash Balances, January 1</i> | <u>43,552</u> | <u>294,997</u> | | <u>\$8,841</u> | <u>347,390</u> |
| Fund Cash Balances, December 31 | | | | | |
| Nonspendable | | | | 8,640 | 8,640 |
| Restricted | | 252,627 | | 201 | 252,828 |
| Assigned | 55,446 | | | | 55,446 |
| <i>Fund Cash Balances, December 31</i> | <u>\$55,446</u> | <u>\$252,627</u> | | <u>\$8,841</u> | <u>\$316,914</u> |

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

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Highland Township, Defiance County, Ohio, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township appropriates Fire Fund money to support a volunteer fire department.

Public Entity Risk Pool

The Township participates in a public entity risk pool, the Ohio Plan Risk Management, Inc. (OPRM). Note 6 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.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

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

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

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

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

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

Fire Fund This fund accounts for and reports property tax money for providing fire protection services.

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

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

Permanent Funds These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the Township's programs (for the benefit of the Township or its citizenry). The Township had the following significant Permanent Funds:

HIGHLAND TOWNSHIP
DEFIANCE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(CONTINUED)

Myers Cemetery Bequest Fund This fund accounts for and reports interest earned on the nonexpendable corpus from a trust agreement restricted for the general maintenance and upkeep of the Myers Cemetery.

Hall Cemetery Bequest Fund This fund accounts for and reports interest earned on the nonexpendable corpus from a trust agreement restricted for the general maintenance and upkeep of the Hall Cemetery.

General Cemetery Bequest Fund This fund accounts for and reports interest earned on the nonexpendable corpus from trust agreements restricted for the general maintenance and upkeep of the Township cemeteries.

Basis of Accounting

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

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

Budgetary Process

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

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

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

Encumbrances The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are canceled, and reappropriated in the subsequent year.

A summary of 2019 budgetary activity appears in Note 3.

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.

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.

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(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:

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

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

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

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

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

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

Note 3 – Budgetary Activity

Budgetary activity for the year ending December 31, 2019 follows:

| 2019 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$53,769 | \$69,519 | \$15,750 |
| Special Revenue | 445,332 | 501,638 | 56,306 |
| Capital Projects | | 101,500 | 101,500 |
| Permanent | 30 | | (30) |
| Total | \$499,131 | \$672,657 | \$173,526 |

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(CONTINUED)**

| 2019 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$97,321 | \$57,625 | \$39,696 |
| Special Revenue | 740,327 | 544,008 | 196,319 |
| Capital Projects | 101,500 | 101,500 | |
| Permanent | 231 | | 231 |
| Total | \$939,379 | \$703,133 | \$236,246 |

Note 4 – Deposits

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

| | |
|-------------------------------|-----------|
| | 2019 |
| Demand deposits | \$196,540 |
| Certificates of deposit | 10,074 |
| Other time deposits (savings) | 110,300 |
| Total deposits | \$316,914 |

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Note 5 – Property Taxes

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

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

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

Note 6 – Risk Management

The Township belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the Plan), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (Members). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(CONTINUED)**

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. The OPRM is also participated in a property primary excess of loss treaty. This treaty reimbursed the OPRM 30% for losses between \$200,000 and \$1,000,000. The reimbursement is based on the amount of loss between \$200,000 and \$1,000,000. Effective November 1, 2018, the OPRM the property retention remained unchanged, however, the Plan assumed 100% of the first \$250,000 casualty treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. Effective November 1, 2019, the OPRM's property retention increased from 30% to 33%, while the casualty treaty remains unchanged and still assumes 100% of the first \$250,000 casualty treaty. OPRM had 776 members as of December 31, 2019.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2019:

| | |
|-----------------|---------------------|
| Assets | \$15,920,504 |
| Liabilities | <u>(11,329,011)</u> |
| Members' Equity | <u>\$4,591,493</u> |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Note 7 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Most of 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. OPERS members contributed 10 percent of their gross salaries, and the Township contributed an amount equaling 14 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2019.

Social Security

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

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2019.

Note 8 – Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes 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. The portion of employer contributions allocated to health care for OPERS members in the traditional pension plan and combined plan was 0 percent during calendar year 2019. The portion of employer contributions allocated to health care for OPERS members in the member-directed plan was 4.0 percent during calendar year 2019.

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019
(CONTINUED)**

Note 9 – Debt

Debt outstanding at December 31, 2019, was as follows:

| | Principal | Interest Rate |
|-----------------|-----------|---------------|
| Fire Truck Loan | \$216,490 | 2.11% |

Contrary to Ohio law, the Township financed a loan for the purchase of a fire truck for \$300,000 on October 14, 2016.

Amortization

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

| Year Ending December 31: | Loan |
|-----------------------------|-----------|
| 2020 | \$33,644 |
| 2021 | 191,365 |
| Total | \$225,009 |

Note 10 – Miscellaneous Receipts

Miscellaneous receipts in the General Fund primarily consisted of worker's compensation insurance premium refunds and a property insurance settlement receipt.

Note 11 – Compliance

Contrary to Ohio Rev. Code Chapter 133, the Township made principal payments on a type of debt it has no statutory authority to incur. Also, contrary to Ohio Rev. Code § 505.24(C), Trustees' compensation were not properly allocated to the General Fund.

Note 12 – Subsequent Events

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Township. In addition, the impact on the Township's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**HIGHLAND 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, 2018**

| | General | Special Revenue | Permanent | Totals (Memorandum Only) |
|---|-----------------|--------------------|----------------|--------------------------------|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$23,234 | \$235,224 | | \$258,458 |
| Charges for Services | | 20,911 | | 20,911 |
| Licenses, Permits and Fees | 2,275 | 8,600 | | 10,875 |
| Intergovernmental | 37,846 | 166,168 | | 204,014 |
| Earnings on Investments | 72 | 45 | \$15 | 132 |
| Miscellaneous | 1,342 | 10,369 | | 11,711 |
| <i>Total Cash Receipts</i> | <u>64,769</u> | <u>441,317</u> | <u>15</u> | <u>506,101</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| General Government | 54,558 | 43,066 | | 97,624 |
| Public Safety | | 131,852 | | 131,852 |
| Public Works | | 162,220 | | 162,220 |
| Health | | 9,403 | | 9,403 |
| Human Services | | 1,152 | | 1,152 |
| Capital Outlay | | 195 | | 195 |
| Debt Service: | | | | |
| Principal Retirement | | 27,795 | | 27,795 |
| Interest and Fiscal Charges | | 5,848 | | 5,848 |
| <i>Total Cash Disbursements</i> | <u>54,558</u> | <u>381,531</u> | | <u>436,089</u> |
| <i>Net Change in Fund Cash Balances</i> | 10,211 | 59,786 | 15 | 70,012 |
| <i>Fund Cash Balances, January 1</i> | <u>33,341</u> | <u>235,211</u> | <u>8,826</u> | <u>277,378</u> |
| Fund Cash Balances, December 31 | | | | |
| Nonspendable | | | 8,640 | 8,640 |
| Restricted | | 253,604 | 201 | 253,805 |
| Committed | | 41,393 | | 41,393 |
| Assigned | 43,552 | | | 43,552 |
| <i>Fund Cash Balances, December 31</i> | <u>\$43,552</u> | <u>\$294,997</u> | <u>\$8,841</u> | <u>\$347,390</u> |

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

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Highland Township, Defiance County, Ohio, (the Township) as a body corporate and politic. A publicly elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township appropriates Fire Fund money to support a volunteer fire department.

Public Entity Risk Pool

The Township participates in a public entity risk pool, the Ohio Plan Risk Management, Inc. (OPRM). Note 6 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.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

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

Fund Accounting

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

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

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

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

Fire Fund This fund accounts for and reports property tax money for providing fire protection services.

Permanent Funds These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the Township's programs (for the benefit of the Township or its citizenry). The Township had the following significant Permanent Funds:

Myers Cemetery Bequest Fund This fund accounts for and reports interest earned on the nonexpendable corpus from a trust agreement restricted for the general maintenance and upkeep of the Myers Cemetery.

Hall Cemetery Bequest Fund This fund accounts for and reports interest earned on the nonexpendable corpus from a trust agreement restricted for the general maintenance and upkeep of the Hall Cemetery.

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

General Cemetery Bequest Fund This fund accounts for and reports interest earned on the nonexpendable corpus from trust agreements restricted for the general maintenance and upkeep of the Township cemeteries.

Basis of Accounting

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

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

Budgetary Process

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

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

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

Encumbrances The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year-end are canceled, and reappropriated in the subsequent year.

A summary of 2018 budgetary activity appears in Note 3.

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.

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.

Fund Balance

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

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

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

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

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

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

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

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

Note 3 – Budgetary Activity

Budgetary activity for the year ending December 31, 2018 follows:

| 2018 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$52,059 | \$64,769 | \$12,710 |
| Special Revenue | 394,215 | 441,317 | 47,102 |
| Permanent | 30 | 15 | (15) |
| Total | \$446,304 | \$506,101 | \$59,797 |

| 2018 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$85,400 | \$54,558 | \$30,842 |
| Special Revenue | 629,426 | 381,531 | 247,895 |
| Permanent | 231 | 231 | 231 |
| Total | \$715,057 | \$436,089 | \$278,968 |

Note 4 – Deposits

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

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

| | |
|-------------------------------|------------------|
| | 2018 |
| Demand deposits | \$227,104 |
| Certificates of deposit | 10,074 |
| Other time deposits (savings) | 110,212 |
| Total deposits | <u>\$347,390</u> |

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation.

Note 5 – Property Taxes

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

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

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

Note 6 – Risk Management

The Township belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the Plan), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (Members). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Effective November 1, 2018, the OPRM property retention remained unchanged, however, the Plan assumed 100% of the first \$250,000 casualty treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 members as of December 31, 2018.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2018:

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

| | |
|-----------------|--------------------|
| Assets | \$15,065,412 |
| Liabilities | (10,734,623) |
| Members' Equity | <u>\$4,330,789</u> |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

Note 7 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Most of 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. OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2018.

Social Security

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

Employees contributed 6.2 percent of their gross salaries. The Township contributed an amount equal to 6.2 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2018.

Note 8 – Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes 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. The portion of employer contributions allocated to health care for OPERS members in the traditional pension plan and combined plan was 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for OPERS members in the member-directed plan was 4.0 percent during calendar year 2018.

Note 9 – Debt

Debt outstanding at December 31, 2018, was as follows:

| | Principal | Interest Rate |
|-----------------|-----------|---------------|
| Fire Truck Loan | \$244,838 | 2.11% |

Contrary to Ohio law, the Township financed a loan for the purchase of a fire truck for \$300,000 on October 14, 2016.

Amortization

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

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

| Year Ending December 31: | Loan |
|-----------------------------|------------------|
| 2019 | \$33,644 |
| 2020 | 33,644 |
| 2021 | 191,365 |
| Total | <u>\$258,653</u> |

Note 10 – Compliance

Contrary to Ohio Rev. Code Chapter 133, the Township made principal payments on a type of debt it has no statutory authority to incur. Also, contrary to Ohio Rev. Code § 505.24(C), Trustees' compensation were not properly allocated to the General Fund.



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(419) 245-2811 or (800) 443-9276
NorthwestRegion@ohioauditor.gov

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

Highland Township
Defiance County
15772 Hill Road
Defiance, Ohio 43512-8926

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 Highland Township, Defiance County, Ohio (the Township) as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements and have issued our report thereon dated July 20, 2020, 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. We qualified our opinion due to the Township not recording audit adjustments. We also noted the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Township.

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 2019-001 and 2019-002 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2019-001 and 2019-003.

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 report is not suitable for any other purpose.



Keith Faber
Auditor of State

Columbus, Ohio

July 20, 2020

**HIGHLAND TOWNSHIP
DEFIANCE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2019 AND 2018**

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

FINDING NUMBER 2019-001

Noncompliance and Material Weakness – Findings for Adjustment

Ohio Rev. Code § 505.24(C) provides that, by unanimous vote, a board of township trustees may adopt a method of compensation consisting of an annual salary to be paid in equal monthly payments. The amount of the annual salary approved by the board shall be no more than the maximum amount that could be received annually by a trustee if the trustee were paid on a per diem basis as specified in this division, and shall be paid from the township general fund or from other township funds in such proportions as the board may specify by resolution. Each trustee shall certify the percentage of time spent working on matters to be paid from the township general fund and from other township funds in such proportions as the kinds of services performed.

Due to deficiencies in policies and procedures over elected officials' compensation, the Board did not pass a resolution in 2019 or 2018 approving the method of compensation by which Township officials would be paid. The Trustees did not complete the required monthly certifications which indicate the percentage of time spent on matters to be paid from the Township General Fund and from other Township funds in such proportions as the kinds of services performed in 2019 or 2018.

Furthermore, a significant portion of each monthly salary paid to each Trustee were charged to the Gasoline Tax Fund in both 2019 and 2018. Accordingly, a total of \$30,623 and \$32,324 in 2019 and 2018, respectively, was improperly charged to the Gasoline Tax Fund.

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 to accurately assess the financial status of the Township.

The Township has decided not to correct this error at this time since there was only \$55,446 available in the General Fund as of December 31, 2019. In accordance with the foregoing facts, we hereby issue a finding for adjustment for \$62,947 from the General Fund to the Gasoline Tax Fund.

The Trustees' compensation should be apportioned to the proper funds based on required salary certifications or other documentation (e.g. time sheets) which supports their time logged for administrative and road work to be paid from the General and Road Funds. The Township should also record the adjustment to the Township's accounting records for the amount listed above.

FINDING NUMBER 2019-002

Material Weakness – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16. In addition, Governmental Accounting Standards Board (GASB) Statement No. 54 (codified as GASB Cod 1800.165-.179) requires fund balance be divided into one of five classifications based on the extent to which constraints are imposed upon the resources.

The following errors were identified in the accompanying financial statements:

- In 2019, Ohio Public Works Commission on-behalf activity was not posted to the accounting system by the Township, which resulted in understating intergovernmental revenue, capital outlay, and appropriations in the Capital Projects Fund in the amount of \$101,500.
- In 2019, Actual Receipts in the Budgetary Activity note to the financial statements were overstated in the General Fund in the amount of \$625,670.
- In 2019 and 2018, General Fund subsequent year appropriations in excess of estimated receipts were incorrectly classified as unassigned instead of assigned fund balance in the amounts of \$55,446 and \$43,552, respectively.
- Committed fund balance within the Road and Bridge Fund in the amount of \$41,393 was incorrectly classified as restricted in 2018.
- Restricted fund balance within the Fire Fund in the amounts of \$41,071 and \$37,704 were incorrectly classified as assigned and committed in 2019 and 2018, respectively.

These errors were the result of inadequate policies and procedures in reviewing the financial statements. Failure to complete accurate financial statements could lead to the Board of Trustees making misinformed decisions. The accompanying financial statements and notes to the financial statements have been adjusted to correct these and other errors. Additional errors were noted in smaller relative amounts.

To help ensure the Township's financial statements and notes to the financial statements are complete and accurate, the Board 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 Board, to identify and correct errors and omissions. In addition, the Fiscal Officer should review Ohio Auditor of State Audit Bulletin 2011-004 for guidance on GASB Statement No. 54.

FINDING NUMBER 2019-003

Noncompliance

Ohio Rev. Code Chapter 133 and 505 authorizes certain methods by which Townships may incur debt.

Ohio Rev. Code § 133.22, permits a subdivision to issue anticipatory-securities if it meets the requirements outlined in the statute.

Ohio Rev. Code § 133.10, permits a subdivision to issue anticipation securities in anticipation of current property tax revenues or in anticipation of current revenues in and for any fiscal year from any source or combination of sources, including distributions of any federal or state monies, other than the proceeds of property taxes levied by the subdivision.

Ohio Rev. Code § 133.12 which allows a subdivision to issue general obligation securities to meet emergencies.

Ohio Rev. Code § 133.14 which allows the issuance of securities for the purpose of providing funds with which to pay one or more final judgments rendered against the subdivision.

Ohio Rev. Code § 133.15, a subdivision is authorized to issue securities for the purpose of paying all or any portion of the costs of any permanent improvement that the subdivision is authorized, alone or in cooperation with other persons, to acquire, improve, or construct.

Ohio Rev. Code § 133.151 which allows a township to issue self-supporting securities to pay for the costs of any permanent improvements.

Ohio Rev. Code § 133.18, the taxing authority of a subdivision, may by legislation submit to the electors of the subdivision the question of issuing any general obligation bonds, for one purpose, that the subdivision has power or authority to issue.

Additionally, **Ohio Rev. Code § 505.262** which allows the board of township trustees to issue securities for the construction of buildings.

During 2017, the Township obtained a commercial loan from a local bank and made principal payments in the amounts of \$28,348 and \$27,795 in 2019 and 2018, respectively. The loan was used by the Township to purchase a fire truck.

This type of debt does not meet the criteria for any of the debt authorized in Ohio Rev. Code Chapter 133 or Ohio Rev. Code § 505.262. Without a statutory provision authorizing these methods for incurring debt, the Township was not permitted to use such methods. The Township had no statutory authority to incur debt through either installment loans or promissory notes with any banking institutions. Inadequate policies and procedures related to debt issuance can result in illegal expenditures by the Township.

The Township should consult with legal counsel before incurring debt to determine if the debt is authorized by statute.

Officials' Response:

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

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OHIO AUDITOR OF STATE KEITH FABER



HIGHLAND TOWNSHIP

DEFIANCE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 8/4/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov