



**Auditor of State
Betty Montgomery**

**MADISON TOWNSHIP
HIGHLAND COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Madison Township
Highland County
11255 State Route 753 South
Greenfield, Ohio 45123

To the Board of Trustees:

We have audited the accompanying financial statements of Madison Township, Highland County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 10, 2003

**MADISON TOWNSHIP
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Local Taxes	\$29,849	\$43,060	\$72,909
Intergovernmental	54,927	88,835	143,762
Licenses, Permits, and Fees	955		955
Earnings on Investments	5,637	2,760	8,397
Other Revenue	7,175	7,203	14,378
 Total Cash Receipts	 98,543	 141,858	 240,401
Cash Disbursements:			
Current:			
General Government	63,495		63,495
Public Safety		19,407	19,407
Public Works		85,050	85,050
Health	9,767		9,767
 Total Cash Disbursements	 73,262	 104,457	 177,719
 Total Receipts Over Disbursements	 25,281	 37,401	 62,682
 Fund Cash Balances, January 1	 58,149	 159,018	 217,167
 Fund Cash Balances, December 31	 \$83,430	 \$196,419	 \$279,849

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

**MADISON TOWNSHIP
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Local Taxes	\$31,045	\$43,924	\$0	\$74,969
Intergovernmental	48,890	112,983	441,888	603,761
Licenses, Permits, and Fees	1,445			1,445
Earnings on Investments	6,741	2,997		9,738
Other Revenue	6,042	6,466		12,508
Total Cash Receipts	<u>94,163</u>	<u>166,370</u>	<u>441,888</u>	<u>702,421</u>
Cash Disbursements:				
Current:				
General Government	80,568			80,568
Public Safety	500	19,430		19,930
Public Works	6,645	135,944		142,589
Health	6,928			6,928
Capital Outlay	34,521	32,946	441,888	509,355
Total Cash Disbursements	<u>129,162</u>	<u>188,320</u>	<u>441,888</u>	<u>759,370</u>
Total Receipts Under Disbursements	<u>(34,999)</u>	<u>(21,950)</u>	<u>0</u>	<u>(56,949)</u>
Other Financing Receipts:				
Other Sources	37			37
Total Other Financing Receipts	<u>37</u>	<u>0</u>	<u>0</u>	<u>37</u>
Cash Receipts and Other Financing Receipts Under Cash Disbursements	(34,962)	(21,950)	0	(56,912)
Fund Cash Balances, January 1	93,111	180,968		274,079
Fund Cash Balances, December 31	<u>\$58,149</u>	<u>\$159,018</u>	<u>\$0</u>	<u>\$217,167</u>

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

**MADISON TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Madison Township, Highland County, Ohio (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance and cemetery maintenance. The Township contracts with the City of Greenfield to provide fire 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 prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash Deposit

The Township deposits all available funds in a "NOW" checking account and a savings account with a commercial bank.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

Gasoline Tax Fund

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

Fire District Fund

This fund receives property tax money for the fire protection contract with the City of Greenfield.

**MADISON TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project fund:

Public Works Commission Projects Fund

The Township received a grant from the State of Ohio to refurbish Lover's Lane.

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. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law. However, the Township had no material outstanding encumbrances at December 31, 2002 and 2001.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**MADISON TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH AND DEPOSITS

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

	2002	2001
Demand deposits	\$279,849	\$217,167

Deposits: Deposits are either 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, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$63,988	\$98,543	\$34,555
Special Revenue	142,845	141,858	(987)
Total	\$206,833	\$240,401	\$33,568

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$144,175	\$73,262	\$70,913
Special Revenue	301,823	104,457	197,366
Total	\$445,998	\$177,719	\$268,279

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$57,058	\$94,200	\$37,142
Special Revenue	150,095	166,370	16,275
Capital Projects	471,864	441,888	(29,976)
Total	\$679,017	\$702,458	\$23,441

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$150,170	\$129,162	\$21,008
Special Revenue	331,063	188,320	142,743
Capital Projects	471,864	441,888	29,976
Total	\$953,097	\$759,370	\$193,727

The Township did not obtain prior certification of the fiscal officer for all purchases as required by Ohio Law.

**MADISON TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(Continued)**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, 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 Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. The plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2002.

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 townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP 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, which the General Reinsurance Corporation will reinsure.

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.

**MADISON TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001
(Continued)**

6. RISK MANAGEMENT (Continued)

Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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 government.

Financial Position

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

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$23,703,776	\$22,684,383
Liabilities	<u>9,379,003</u>	<u>8,924,977</u>
Retained earnings	<u>\$14,324,773</u>	<u>\$13,759,406</u>
 <u>Property Coverage</u>	 <u>2001</u>	 <u>2000</u>
Assets	\$5,011,131	\$4,156,784
Liabilities	<u>647,667</u>	<u>497,831</u>
Retained earnings	<u>\$4,363,464</u>	<u>\$3,658,953</u>

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Madison Township
Highland County
11255 State Route 753 South
Greenfield, Ohio 45123

To the Board of Trustees:

We have audited the accompanying financial statements of Madison Township, Highland County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated April 10, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-40436-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-40436-001 and 2002-40436-002.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2002-40436-002 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated April 10, 2003.

This report is intended solely for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

April 10, 2003

**MADISON TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-40436-001

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon. This section also provides for two exceptions to the above requirements:

- A. Then and Now Certificates- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000 dollars, the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

The Township failed to get the fiscal officer's certification before making commitments and neither of the above exceptions was used. Fifty eight percent (58%) of the expenditures and obligations tested were initiated without obtaining the prior certification of the Clerk.

This procedure is not only required by law, but is a key control in the disbursement process. Without proper certification of funds, disbursements could be made without current adequate resources being available or disbursements could be made in excess of authorized appropriations. Every effort should be made by the Township to properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending funds.

FINDING NUMBER 2002-40436-002

Material Weakness

There was no written bank reconciliation prepared by the Township Clerk for 11 of the 24 months under audit. Without properly and timely bank reconciliations, errors could go undetected for a long period. We recommend that the Clerk prepare a written reconciliation on a monthly basis. Further, this reconciliation should be presented to the Trustees for their review and approval.

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**MADISON TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40436-001	Did not establish fund for CDBG monies.	No longer valid.	The Township did not have CDBG funds during audit period.
2000-40436-002	Disbursements exceeded appropriations.	Yes.	



**Auditor of State
Betty Montgomery**

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MADISON TOWNSHIP

HIGHLAND 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
MAY 8, 2003**