



**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2003 & 2002**



**Auditor of State  
Betty Montgomery**



MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Middlefield Township  
Geauga County  
15228 Madison Road  
P.O. Box 384  
Middlefield, Ohio 44062

To the Board of Trustees:

We have audited the accompanying financial statements of Middlefield Township, Geauga County, Ohio, (the Township) as of and for the years ended December 31, 2003 and December 31, 2002. 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.

The Township's financial transactions were processed using 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 conduct the audit of 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 the 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 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, 2003 and December 31, 2002, 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 November 12, 2004 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.

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This report is intended solely for the information and use of management, the Board of Trustees 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

November 12, 2004

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Local Taxes	\$82,674	\$288,102	\$370,776
Intergovernmental	233,722	90,406	324,128
Earnings on Investments	5,481	220	5,701
Other Revenue	32,420	0	32,420
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	354,297	378,728	733,025
<b>Cash Disbursements:</b>			
Current:			
General Government	252,276	65,634	317,910
Public Works	2,190	323,251	325,441
Health	18,979	0	18,979
Miscellaneous	99,205	0	99,205
Capital Outlay	219,361	0	219,361
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	592,011	388,885	980,896
Total Receipts Over/(Under) Disbursements	<u>(237,714)</u>	<u>(10,157)</u>	<u>(247,871)</u>
<b>Other Financing Receipts and (Disbursements):</b>			
Loan Proceeds	133,200	0	133,200
Other Uses	(51)	0	(51)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	133,149	0	133,149
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(104,565)	(10,157)	(114,722)
Fund Cash Balances, January 1, 2003	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1, 2003	306,853	132,152	439,005
<b>Fund Cash Balances, December 31, 2003</b>	<u><b>\$202,288</b></u>	<u><b>\$121,995</b></u>	<u><b>\$324,283</b></u>

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

**MIDDLEFIELD TOWNSHIP  
GEAUGA 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**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Local Taxes	\$73,858	\$292,939	\$0	\$366,797
Intergovernmental	168,938	83,670	103,314	355,922
Earnings on Investments	8,815	0	0	8,815
Other Revenue	34,467	1,541	0	36,008
	<u>286,078</u>	<u>378,150</u>	<u>103,314</u>	<u>767,542</u>
<b>Total Cash Receipts</b>				
	<u>286,078</u>	<u>378,150</u>	<u>103,314</u>	<u>767,542</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	266,212	67,500	0	333,712
Public Works	10,229	283,682	0	293,911
Health	58,727	0	0	58,727
Miscellaneous	89,101	0	0	89,101
Capital Outlay	87,657	0	103,314	190,971
	<u>511,926</u>	<u>351,182</u>	<u>103,314</u>	<u>966,422</u>
<b>Total Cash Disbursements</b>				
	<u>511,926</u>	<u>351,182</u>	<u>103,314</u>	<u>966,422</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>(225,848)</u>	<u>26,968</u>	<u>0</u>	<u>(198,880)</u>
<b>Other Financing Receipts and (Disbursements):</b>				
Transfers-In	0	9,000	0	9,000
Transfers-Out	(9,000)	0	0	(9,000)
	<u>(9,000)</u>	<u>9,000</u>	<u>0</u>	<u>0</u>
<b>Total Other Financing Receipts/(Disbursements)</b>				
	<u>(9,000)</u>	<u>9,000</u>	<u>0</u>	<u>0</u>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<u>(234,848)</u>	<u>35,968</u>	<u>0</u>	<u>(198,880)</u>
<b>Fund Cash Balances, January 1, 2002</b>	<u>541,701</u>	<u>96,184</u>	<u>0</u>	<u>637,885</u>
<b>Fund Cash Balances, December 31, 2002</b>	<u><b>\$306,853</b></u>	<u><b>\$132,152</b></u>	<u><b>\$0</b></u>	<u><b>\$439,005</b></u>

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



**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Middlefield Township, Geauga County, (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 East Geauga Fire District to provide fire protection services and with Community Care Ambulance to provide ambulance services in conjunction with Middlefield Village.

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 and Investments**

Certificates of deposit are valued at cost.

**D. Fund Accounting**

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

**1. General Fund**

The General Fund 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 Fund**

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

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

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**3. Capital Projects Fund**

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Township had the following significant Capital Projects Fund:

*Issue II Fund* – The Township received a grant in 2002 from the State of Ohio to improve Georgia and Newcomb roads. The Township did not receive funds in 2003.

**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 canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2003 and 2002 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.

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

	2003	2002
Demand deposits	\$324,283	\$379,005
Certificates of deposit	0	60,000
Total deposits	324,283	439,005

**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, 2003 and December 31, 2002 follows:

**2003 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$378,065	\$487,497	\$109,432
Special Revenue	507,379	378,728	(128,651)
Total	\$885,444	\$866,225	(\$19,219)

**2003 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$478,515	\$592,062	(\$113,547)
Special Revenue	452,502	388,885	63,617
Total	\$931,017	\$980,947	(\$49,930)

**2002 Budgeted vs. Actual Receipts**

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$250,014	\$286,078	\$36,064
Special Revenue	488,820	387,150	(101,670)
Capital Projects	0	103,314	103,314
Total	\$738,834	\$776,542	\$37,708

**2002 Budgeted vs. Actual Budgetary Basis Expenditures**

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$554,000	\$520,926	\$33,074
Special Revenue	467,000	351,182	115,818
Capital Projects	0	103,314	(103,314)
Total	\$1,021,000	\$975,422	\$45,578

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

Contrary to Ohio law, 5705, budgetary expenditures exceeded appropriation authority at the fund, function and object level (legal level) of control for seven line items in the General Fund at December 31, 2003, and nine line items at December 31, 2002 for the General Fund including Capital Projects which appropriated zero dollars. The Township was also in violation of 5705.41(D).

**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. DEBT**

Debt outstanding at December 31, 2003 was as follows:

	Principal	Interest Rate
Commercial Loan - Middlefield Bank	133,200	2.56%
Total	\$133,200	

The Commercial Loan was entered into by the Township to purchase land adjacent to the Township Property. The note is to be paid in full as of December 2005.

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

	Commercial Loan
Year ending December 31:	
2004	\$69,301
2005	69,301
Total	\$138,602

**6. RETIREMENT SYSTEMS**

All Township employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multiple-employer plans. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**6. RETIREMENT SYSTEMS (Continued)**

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, members of OPERS contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2003 and 2002. The Township has paid all contributions required through December 31, 2003.

**7. RISK MANAGEMENT**

The Government 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.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2003 and 2002 (the latest information available):

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	<u>(11,791,300)</u>	<u>(9,197,512)</u>
Retained earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>

MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)

7. RISK MANAGEMENT (Continued)

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



## **Auditor of State Betty Montgomery**

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

Middlefield Township  
Geauga County  
15228 Madison Road  
P.O. Box 384  
Middlefield, Ohio 44002

We have audited the financial statements of Middlefield Township, Geauga County, Ohio, (the Township) as of and for the years ended December 31, 2003 and December 31, 2002, and have issued our report thereon dated November 12, 2004, wherein we noted that the Township's financial transactions were processed using 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 conduct the audit of the Township because the Auditor of State designed, developed, and 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 *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 tested its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to the Township's management in a separate letter dated November 12, 2004.

#### **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 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 management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-003.

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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider item 2003-003 listed above 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 the Township's management in a separate letter dated November 12, 2004.

This report is intended solely for the information and use of management, 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

November 12, 2004



**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2003-001**

**Noncompliance Citation**

**Encumbrance of Funds**

Ohio Revised Code Section 5705.41(D)(1) states that no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditure lacking prior certification should be void.

Section 5705.41(D)(1) provides two exceptions to the above requirement that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money:

- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that both at the time that the contract or order was made, and at the time that the fiscal officer is completing the certification, that a sufficient sum was appropriated and free of any previous encumbrances, the 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 (a then and now certificate), if such expenditure is otherwise valid.
  
- If the amount involved is less than three thousand dollars (increased from \$1,000 on April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Trustees, upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township

During testing we noted 31 out of the 73 (42.5%) non-payroll expenditures were not encumbered prior to receiving the goods or services. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

We recommend the Township require the Clerk/Treasurer to certify/encumber the funds for all expenditures to which Section 5705.41(D) applies. The Township should utilize "then and now" certificates where possible.

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**FINDING NUMBER 2003-002**

**Noncompliance Citation**

**Expenditures and Encumbrances in Excess of Appropriations**

Chapter 5705 of the Revised Code sets forth a plan that provides for a uniform budget and appropriation process in order to assure that a governmental entity expends no more than it expects to receive in revenue. While federal and state loan and grants are deemed appropriated and in the process of collection so as to be available for expenditure, they must still be recorded according to Ohio Revised Code Section 5705.42. Thus, a mechanism is still required to account for receipt and expenditure. That mechanism is an amendment of, or a supplement to, the entity's estimated resources, or its appropriation measure, which shall comply with all provisions of law governing the taxing authority in making an original appropriation per Ohio Revised Code Section 5705.40. An original appropriation measure must be passed by the taxing authority, and any amendment of, or supplement to, that measure also requires legislative action per Ohio Revised Code Section 5705.38.

During our year end testing for fiscal years ending December 31, 2003 and December 31, 2002, we noted expenditures plus encumbrances exceeded appropriations at the legal level of control (object level) as follows:

<u>Fund Description</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Difference</u>
<b><u>December 31, 2003</u></b>			
<b>General Fund</b>			
General Government - Other Expenses	\$20,000	\$150,335	(\$130,335)
Capital Outlay - Buildings	100,000	212,040	(112,040)
Other Financing Disbursements - Other Financing Uses	0	51	(51)
<b>Special Revenue Funds</b>			
<i>Road and Bridge Fund</i>			
Public Works - Salaries	75,000	94,400	(19,400)
Public Works - Ohio Public Employees Retirement System	5,000	8,353	(3,353)
Public Works - Other Expenses	10,000	10,538	(538)
<i>Ambulance Fund</i>			
General Government - Other Expenses	0	19,655	(19,655)

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**FINDING NUMBER 2003-002 (Continued)**

**Noncompliance Citation (Continued)**

**Expenditures and Encumbrances in Excess of Appropriations (Continued)**

<u>Fund Description</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Difference</u>
<b><u>December 31, 2002</u></b>			
<b>General Fund</b>			
General Government - County Auditor's and Treasurer's Fees	5,000	9,161	(4,161)
General Government - Other Expenses	44,500	118,680	(74,180)
Other Financing Disbursements - Transfers Out	0	9,000	(9,000)
<b>Special Revenue Fund</b>			
<i>Road and Bridge Fund</i>			
Public Works - Salaries	75,000	82,052	(7,052)
Public Works - Ohio Public Employees Retirement System	5,000	5,701	(701)
Public Works - Contracted Services	25,000	48,911	(23,911)
Public Works - Operating Supplies	0	37,884	(37,884)
Public Works - Small Tools and Minor Equipment	15,000	26,017	(11,017)
<b>Capital Projects Fund</b>			
<i>Issue II Grant Fund</i>			
Capital Outlay	0	103,314	(103,314)

The above violation in the Capital Projects fund occurred because the Township received two Issue II grant payments. The Township failed to account for all appropriations to and from each appropriations fund. The payments were not included on the Township's records or annual financial report. In accordance with Auditor of State Bulletins 2000-008 and 2002-004, both the revenue and expenditure activity of the grant should have been included. This resulted in the understatement of budgetary revenue and expenditure activity for the Issue II project. The accompanying financial statements have been adjusted to reflect the grant activity.

We recommend the Township follow the budgetary scheme of Chapter 5705 of the Revised Code and monitor appropriations, amending them as appropriate to record these funds. When the Township receives notice that it has been approved for funding by a State or Federal agency, it should review the reporting requirements established by Auditor of State Bulletins 2000-008 and 2002-004, amend its appropriations measure to account for the grant funds, and when notified that funds have been expended on its behalf make memo entries to post the revenues and expenditures to the Township's books.

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**FINDING NUMBER 2003-003**

**Material Weakness**

**Recording Transactions**

All financial transactions associated with the Township are to be recorded properly into the Township's ledgers in a timely manner. Proper recording includes but is not limited to the following:

- Receipts should be recorded the day they are received or in a timely manner thereafter;
- The institution or individual funds are received from should agree to the ledgers;
- The dollar amount of funds received should agree between the amount received, the ledgers and deposit slips;
- Receipts and expenditures should be posted to the proper fund and account code;
- Payments should be made on original invoices and the invoice should be marked as paid once payment is made on the invoice;
- The check number, vendor's names, and amount paid should agree between the invoice, purchase order, check register, physical check, and bank statement;
- Checks should be marked void in the system only if they did not or will not clear the bank; and
- Voided checks should be noticeably marked as void.

During our testing of cash and non-payroll transactions we noted various discrepancies. We performed proof of cash procedures from August 2003 to December 2003. The results of our testing are as follows:

- Three receipts were recorded prior to December 31, 2002 but the funds were not received until January 2003;
- Twenty-seven checks between August 2003 and December 2003 were initially recorded as voided checks, but cleared the bank. These checks were then recorded under different check numbers as valid and cleared checks. The second check was physically voided and did not clear the bank;
- One check was recorded in the ledgers to a vendor, but the physical check was written to a different vendor. The check in the ledger was marked as void and another check number was used to write a check to the proper vendor. The second check number was physically voided and did not clear the bank;
- Checks were voided by removing the signature area and were not stamped or marked void; and
- A dual payment was made to a vendor because the original invoice was not marked as being paid. The vendor noticed the error and credited the Township.

We also noted the Board of Trustees receive monthly financial packages but they are not approved and bank reconciliations are not reviewed by a person independent of the Clerk/Treasurer.

We recommend the Township properly record all financial transactions in the ledgers in a timely manner. We also recommend that an independent party, such as the Trustees, review the ledgers and bank reconciliations on a regular basis.



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**MIDDLEFIELD TOWNSHIP**

**GEAUGA 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  
DECEMBER 23, 2004**