

MADISON TOWNSHIP

RICHLAND COUNTY

INDEPENDENT ACCOUNTANTS' REPORT

**FOR THE YEARS ENDED
DECEMBER 31, 2009 AND DECEMBER 31, 2008**

Varney, Fink & Associates, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Board of Trustees
Madison Township
817 Expressview Drive
Mansfield, Ohio 44905

We have reviewed the *Independent Accountants' Report* of Madison Township, Richland County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2008 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Madison Township is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 6, 2011

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**MADISON TOWNSHIP, OHIO
RICHLAND COUNTY
FOR THE YEARS ENDED
DECEMBER 31, 2009 AND DECEMBER 31, 2008**

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INDEPENDENT ACCOUNTANTS' REPORT

Madison Township
Richland County
817 Expressview Drive
Mansfield, Ohio 44905

To the Board of Trustees:

We have audited the accompanying financial statements of Madison Township, Richland County, (the Township), as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

INDEPENDENT ACCOUNTANTS' REPORT (continued)

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2009 and 2008, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Madison Township, Richland County, as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2010, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

December 31, 2010

Madison Township, Ohio
Richland County
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash
Balances - All Governmental Fund Types
For the Year Ended December 31, 2009

	General	Special Revenue	Debt Service	Total (Memorandum Only)
Cash Receipts:				
Local Taxes	\$62,972	\$1,483,817	\$0	\$1,546,789
Charges for Services	0	313,638	0	313,638
Special Assessments	0	28,868	0	28,868
Intergovernmental	96,018	461,590	0	557,608
Licenses, Permits and Fees	12,940	0	0	12,940
Interest	2,867	768	0	3,635
Other	7,610	13,574	0	21,184
Total Cash Receipts	182,407	2,302,255	0	2,484,662
Cash Disbursements:				
Current:				
General Government	217,954	25,900	0	243,854
Public Safety	0	1,466,885	0	1,466,885
Public Works	0	554,580	0	554,580
Health	750	0	0	750
Contract Services	0	24,400	0	24,400
Capital Outlay	2,753	233,249	0	236,002
Debt Service:				
Redemption of Principal	0	14,232	0	14,232
Interest and Fiscal Charges	0	1,842	0	1,842
Total Cash Disbursements	221,457	2,321,088	0	2,542,545
Total Cash Receipts (Under) Cash Disbursements	(39,050)	(18,833)	0	(57,883)
Other Financing Receipts/(Disbursements):				
Advances-In	34,000	34,000	0	68,000
Advances-Out	(34,000)	(34,000)	0	(68,000)
Total Other Financing Receipts/(Disbursements)	0	0	0	0
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements and Other Financing Disbursements	(39,050)	(18,833)	0	(57,883)
Fund Cash Balances/(Deficits), January 1	42,095	505,090	(17,938)	529,247
Fund Cash Balances/(Deficits), December 31	\$3,045	\$486,257	(\$17,938)	\$471,364
Reserve For Encumbrances	\$6,759	\$33,865	\$0	\$40,624

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

Madison Township, Ohio
Richland County
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash
Balances - All Governmental Fund Types
For the Year Ended December 31, 2008

	General	Special Revenue	Debt Service	Total (Memorandum Only)
Cash Receipts:				
Local Taxes	\$65,850	\$1,558,595	\$0	\$1,624,445
Charges for Services	0	261,466	0	\$261,466
Special Assessments	0	32,086	0	32,086
Intergovernmental	231,819	539,206	0	771,025
Licenses, Permits and Fees	4,640	0	0	4,640
Interest	5,990	1,502	0	7,492
Other	9,532	35,717	0	45,249
Total Cash Receipts	317,831	2,428,572	0	2,746,403
Cash Disbursements:				
Current:				
General Government	243,519	29,377	0	272,896
Public Safety	0	1,482,455	0	1,482,455
Public Works	0	869,223	0	869,223
Contract Services	0	22,547	0	22,547
Capital Outlay	2,576	241,620	0	244,196
Debt Service:				
Redemption of Principal	122,000	116,514	0	238,514
Interest and Fiscal Charges	961	3,533	0	4,494
Total Cash Disbursements	369,056	2,765,269	0	3,134,325
Total Cash Receipts (Under) Cash Disbursements	(51,225)	(336,697)	0	(387,922)
Other Financing Receipts:				
Note Proceeds	0	225,000	0	225,000
Total Other Financing Receipts	0	225,000	0	225,000
Excess of Cash Receipts and Other Financing Receipts (Under) Cash Disbursements	(51,225)	(111,697)	0	(162,922)
Fund Cash Balances/(Deficits), January 1	93,320	616,787	(17,938)	692,169
Fund Cash Balances/(Deficits), December 31	\$42,095	\$505,090	(\$17,938)	\$529,247
Reserve For Encumbrances	\$3,884	\$52,222	\$0	\$56,106

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

MADISON TOWNSHIP
RICHLAND COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Madison Township, Richland 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 general governmental services, including road and bridge maintenance, fire protection and emergency medical services. The Township contracts with the Richland County Sheriff's Department to provide police protection to the residents of the Township.

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 (ie, when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Deposits and Investments

The Township's accounting basis includes investments as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains and losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost. Money Market Mutual funds (including Star Ohio) are recorded at share values the mutual funds report.

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:

General Fund – This 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.

MADISON TOWNSHIP
RICHLAND COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

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

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

Road and Bridge Fund - This fund receives property tax money to construct, maintain and repair Township roads and bridges.

Fire Fund – This fund receives property tax money for the purpose of providing fire protection to the Township.

EMS Fund – This fund is used to account for receipts for the purpose of providing emergency medical services to the Township.

Debt Service Fund – The Debt Service Fund is used to accumulate resources for the payment of bonds and note indebtedness.

E. Budgetary Process

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

Appropriations - Budgetary expenditures (disbursements and encumbrances) may not exceed appropriations at the object legal level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

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

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

A summary of 2009 and 2008 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
 RICHLAND COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave is not reflected as a liability under the Township's basis of accounting.

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

The Township maintains a cash and investment 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:

	2009	2008
Demand Deposits	\$422,976	\$444,964
Certificate of Deposit	12,123	0
Total Deposits	435,099	444,964
Repurchase Agreement	0	12,147
STAR Ohio	36,265	72,136
Total Investments	36,265	84,283
Total Deposits and Investments	\$471,364	\$529,247

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Investments

The Township's financial institution transfers securities to the Township's agent to collateralize repurchase agreements. The securities are not in the Township's name.

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

MADISON TOWNSHIP
 RICHLAND COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2009 and December 31, 2008 was as follows:

2009 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$197,059	\$216,407	\$19,348
Special Revenue	2,378,685	2,336,255	(42,430)
Debt Service	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$2,575,744</u>	<u>\$2,552,662</u>	<u>(\$23,082)</u>

2009 Budget vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$306,094	\$262,216	\$43,878
Special Revenue	2,807,355	2,388,953	418,402
Debt Service	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$3,113,449</u>	<u>\$2,651,169</u>	<u>\$462,280</u>

2008 Budget vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$236,075	\$317,831	\$81,756
Special Revenue	2,236,466	2,653,572	417,106
Debt Service	<u>3,045</u>	<u>0</u>	<u>(3,045)</u>
Total	<u>\$2,475,586</u>	<u>\$2,971,403</u>	<u>\$495,817</u>

2008 Budget vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$453,969	\$372,940	\$81,029
Special Revenue	2,926,766	2,817,491	109,275
Debt Service	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$3,380,735</u>	<u>\$3,190,431</u>	<u>\$190,304</u>

MADISON TOWNSHIP
RICHLAND COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

3. BUDGETARY ACTIVITY (continued)

Contrary to Ohio Law, budgetary expenditures exceeded estimated appropriation authority in the Fire Education Fund by \$1,907 for the year ended December 31, 2009 and the Road and Bridge Fund by \$187,602 for the year ended December 31, 2008.

Contrary to Ohio Law, appropriations exceeded estimated resources in the General Fund by \$70,824, Gasoline Tax Fund by \$15,971, Road and Bridge Fund by \$81,691, FEMA Fund by \$8,922, and the Debt Service Fund by \$17,938 for the year ended December 31, 2009 and in the General Fund by \$135,528, Road and Bridge Fund by \$550, Fire District Fund by \$146,464, Fire Education Fund by \$902, FEMA Fund by \$28,000, EMS Fund by \$19,196 and the Debt Service Fund by \$14,893 for the year ended December 31, 2008.

Contrary to Ohio Law, a reduced amended certificate of estimated resources was not obtained for the years ending December 31, 2009 and December 31, 2008.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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 payments, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax has been phased out as of 2009. To compensate, the State will make distributions to taxing subdivisions from revenue generated by a newly enacted commercial activity tax. Generally, these distributions are expected to fully compensate taxing subdivisions for such losses through 2010 with gradual reductions in the reimbursement from 2011 to 2017.

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

MADISON TOWNSHIP
 RICHLAND COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

5. DEBT

General obligation notes with Richland Bank were outstanding as follows:

	Issue Date	Maturity Date	Original Amount	Interest Rate	Principal Balance	
					2009	2008
					Front End Loader	2006

Amortization of principal is scheduled as follows at December 31, 2009:

Year Ending December 31,	General Obligation Notes
2010	14,979
2011	13,074
Total	\$28,053

6. CAPITAL LEASES

The Township has entered into capital lease agreements to finance the acquisition of a dump truck, a fire truck, fire equipment, tractor and patcher, and an ambulance. The following is a schedule of the future minimum lease payments under the capital leases and the present value of the net minimum lease payments at December 31, 2009:

Year Ending December 31,	2005 Dump Truck	2006 Fire Truck	2007 Fire Equipment	2007 Tractor and Patcher	2008 Ambulance
2010	\$20,392	\$21,399	\$8,535	\$38,267	\$35,761
2011	0	0	0	12,756	35,761
2012	0	0	0	0	35,761
2013	0	0	0	0	29,801
Total Minimum Lease Payments	20,392	21,399	8,535	51,023	137,084
Less Amounts Representing Interest	(1,053)	(189)	(87)	(1,974)	(12,391)
Present Value of Future Minimum Lease Payments	\$19,339	\$21,210	\$8,448	\$49,049	\$124,693

7. RETIREMENT SYSTEMS

The Township's fire department personnel belong to the Ohio Police and Fire Pension Funds (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

MADISON TOWNSHIP
RICHLAND COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

7. **RETIREMENT SYSTEMS** (continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2009 and 2008 OP&F participants contributed 10% of their wages. The Township contributed an amount equal to 24% of OP&F participant wages. OPERS members contributed 10% of their wages in 2009 and 2008. The Township contributed an amount equal to 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2009.

8. **RISK MANAGEMENT**

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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

Risk Pool Membership

The Township belongs to the Ohio Plan Risk Management, Inc. (the "Plan"), formerly the Ohio Government Risk Management Plan, a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to 725 Ohio governments ("Members") as of December 31, 2009.

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A-VII or better rated carriers, except the Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Effective November 1, 2009 the Plan retains the lesser of 17.5% or \$43,750 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

MADISON TOWNSHIP
 RICHLAND COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECEMBER 31, 2009 AND DECEMBER 31, 2008

8. RISK MANAGEMENT (continued)

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities, and retained earnings at December 13, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Assets	\$11,176,186	\$10,471,114
Liabilities	(4,852,485)	(5,286,781)
Members' Equity	\$6,323,701	\$5,184,333

You can read the complete audited financial statements for the Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

9. RELATED ORGANIZATION – MADISON WATER DISTRICT

The Madison Township Board of Trustees are responsible for appointing individuals to serve on the Board of Trustees of the Madison Water District. The Madison Water District hires and fires its own staff and does not rely on the Township to finance deficits. The Township is not financially accountable for the Madison Water District nor is the Madison Water District financially dependent on the Township. The Madison Water District serves as its own budgeting, taxing and debt issuance authority. The Madison Water District did not receive any funding from the Township during the audit period.

10. COMPLIANCE

Contrary to Ohio Law, a negative fund balance of (\$17,938) existed in the Debt Service Fund for the years ending December 31, 2009 and December 31, 2008 and in the Road and Bridge Fund of (\$731) for the year ending December 31, 2009.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Madison Township
Richland County
817 Expressview Drive
Mansfield, Ohio 44905

To the Board of Trustees

We have audited the financial statements of Madison Township, Richland County (the Township) as of and for the years ended December 31, 2009 and December 31, 2008, and have issued our report thereon dated December 31, 2010, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than the accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Schedule of Findings and Responses we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses and another deficiency we consider to be a significant deficiency.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Township's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-01 through 2009-03 described in the accompanying Schedule of Findings and Responses to be material weaknesses.

**Madison Township
Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements performed in
Accordance with *Government Auditing Standards***
Page 2

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. We consider finding 2009-04 described in the accompanying Schedule of Findings and Responses to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Responses as items 2009-05 through 2009-08.

We also noted certain matters not requiring inclusion in this report that we reported to management of the Township in a separate letter dated December 31, 2010.

The Township's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Township's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Board of Trustees. We intend it for no one other than those specified parties.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

December 31, 2010

MADISON TOWNSHIP
RICHLAND COUNTY
SCHEDULE OF AUDIT FINDINGS AND RESPONSES
YEARS ENDING DECEMBER 31, 2009 AND DECEMBER 31, 2008

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

Finding 2009-01 *Material Weakness*

Bank Reconciliations

A necessary step in the internal control over financial reporting is to prove both the balance of the bank and the balance of cash in the accounting records. A bank reconciliation means accounting for the differences between the balance on the bank statement(s) and the cash and investment balances according to the entity's records at a specific point in time.

From January 1, 2008 through December 31, 2009, the Township did not fully reconcile the balance of the bank and the balance of cash in the accounting records.

Without complete and accurate monthly bank reconciliations the Township's internal control is significantly weakened which could hinder the timely detection of errors or irregularities by the Township's management. In addition, the Township's management is not provided with timely fiscal information that is vital to the continued operation and decision making process of the Township.

The Township needs to prepare accurate monthly bank reconciliations in a timely manner. Also, a hard copy of the monthly bank reconciliation and the listing of outstanding checks should be filed in the bank activity folder with the bank statements and supporting documents for the applicable month. All unreconciled difference should be resolved as quickly as possible so they are not carried forward from month to month. All reconciling items should be appropriately documented.

The Township has subsequently performed reconciliations for January 2008 through December 2009.

Officials Response:

The Township will prepare accurate monthly bank reconciliations in a timely manner and file a hard copy of the reconciliation and list of outstanding checking in the bank activity folder. The Township will resolve all unreconciled differences as soon as possible and will appropriately document all reconciling items.

Finding 2009-02 *Material Weakness*

Financial Reporting

Sound financial reporting is the responsibility of the Township Fiscal Officer and the Township's Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The Township lacks management oversight in the posting of receipts and expenditures. This lack of oversight is illustrated by the following:

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2008

- Interest receipts in the General Fund totaling \$992 were unrecorded.
- Other receipts in the General Fund totaling \$829 were unrecorded.
- Charges for Services receipts in the EMS Fund totaling \$8,042 were unrecorded.
- General Government disbursements in the General Fund totaling \$523 were unrecorded.
- A transfer of funds between deposit and investment accounts for \$15,894 was incorrectly recorded as a Contract Services disbursement in the Lighting Assessment Fund, thereby overstating disbursements.
- Intergovernmental receipts for the Fire Levy Fund were improperly recorded in the General Fund in the amount of \$70,863 and the Road and Bridge Fund in the amount of \$46,439.
- Capital Outlay disbursements related to the EMS Fund were improperly recorded in the Fire Levy Fund in the amount of \$6,972.
- Capital Outlay disbursements related to the Fire Levy Fund were improperly recorded in the EMS Fund in the amount of \$1,118.
- Tax advances in the General Fund for \$4,000, the Road and Bridge Fund for \$13,000, and the Fire Levy Fund for \$83,000 were incorrectly double recorded with a subsequent disbursement for the same amount to correct, thereby overstating both receipts and disbursements

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Y Reclassifications of receipts and disbursements were made within each fund as follows:

	<u>General</u>	Motor Vehicle License <u>Tax</u>	Gasoline <u>Tax</u>	Road and Bridge	Fire Levy
<u>Receipts:</u>					
Local Taxes	(\$10,884)	\$0	\$0	(\$234,267)	(\$78,953)
Intergovernmental	3,310	0	0	9,267	77,258
Other	8,424	0	0	0	1,695
Note Proceeds	0	0	0	225,000	0
Other Financing Sources	(850)	0	0	0	0
Totals	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>Disbursements:</u>					
General Government	(\$122,961)	\$0	\$0	\$0	\$0
Public Safety	0	0	0	0	(118,616)
Public Works	0	0	(57,717)	(23,581)	0
Capital Outlay	0	(3,204)	6,378	23,581	118,616
Debt Service:					
Redemption of Principal	122,000	3,000	51,157	0	0
Interest and Fiscal Charges	961	204	182	0	0
Totals	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

	Fire <u>Education</u>	<u>EMS</u>	<u>FEMA</u>	Permissive <u>Sales Tax</u>
<u>Receipts:</u>				
Local Taxes	\$0	\$0	(\$39,374)	\$256,884
Intergovernmental	0	0	39,374	(256,884)
Other	0	375	0	0
Other Financing Sources	0	(375)	0	0
Totals	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>Disbursements:</u>				
General Government	\$0	\$0	\$0	\$0
Public Safety	1,598	193,254	0	(97,115)
Public Works	0	0	(1,712)	(2,180)
Health	0	(42,759)	0	0
Human Services	0	(166,764)	0	0
Miscellaneous	(1,598)	0	0	0
Capital Outlay	0	16,269	0	35,503
Debt Service:				
Redemption of Principal	0	0	1,144	61,213
Interest and Fiscal Charges	0	0	568	2,579
Totals	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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2009

- Interest receipts in the General Fund totaling \$286 were overstated.
- Other receipts in the General Fund totaling \$706 were unrecorded.
- Charges for Services receipts in the EMS Fund totaling \$15,127 were unrecorded.
- General Government disbursements in the General Fund totaling \$246 were over stated.
- A transfer of funds between deposit and investment accounts for \$36,000 was incorrectly recorded as an Other receipt in the Fire Levy Fund, thereby overstating receipts.
- Intergovernmental receipts for the Motor Vehicle License Tax Fund were improperly recorded in the General Fund in the amount of \$2,441.
- Intergovernmental receipts for the Gasoline Tax Fund were improperly recorded in the General Fund in the amount of \$2,123.
- Tax advances in the General Fund for \$9,600, the Road and Bridge Fund for \$31,200, and the Fire Levy Fund for \$199,200 were incorrectly double recorded with a subsequent disbursement for the same amount to correct, thereby overstating both receipts and disbursements.

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Y Reclassifications of receipts and disbursements were made within each fund as follows:

<u>Receipts:</u>	<u>General</u>	<u>Gasoline Tax</u>	<u>Road and Bridge</u>	<u>Fire Levy</u>	<u>Fire Education</u>	<u>EMS</u>	<u>Permissive Sales Tax</u>
Local Taxes	(\$20,913)	\$0	(\$14,398)	(\$52,789)	\$0	\$0	\$231,984
Intergovernmental	12,318	0	14,398	52,789	0	4,395	(231,984)
Other	8,695	0	0	0	0	253	0
Other Financing Sources	(100)	0	0	0	0	(4,648)	0
Totals	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Disbursements:</u>							
Public Safety	0	0	0	(121,881)	5,218	232,489	(74,394)
Public Works	0	(2,508)	0	0	0	(5,960)	(1,444)
Health	0	0	0	0	0	(36,702)	0
Human Services	0	0	0	0	0	(195,787)	0
Miscellaneous	0	0	0	0	(5,218)	0	0
Capital Outlay	0	2,508	0	121,881	0	5,960	59,764
Debt Service:							
Redemption of Principal	0	0	0	0	0	0	14,232
Interest and Fiscal Charges	0	0	0	0	0	0	1,842
Totals	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

These adjustments have been posted to the financial statements. Failure to properly post revenue and expenditures can result in inaccurate records and cause the Township to misappropriate funds. To improve accountability and record keeping, we recommend the Township properly post all receipts and disbursements to the correct funds and line items. The Fiscal Officer should review receipts and disbursements posted to the ledgers for accuracy. The Board of Trustees should adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Township and thereby increasing the reliability of the financial data throughout the year.

Officials Response:

The Township will properly post all County and State revenue receipts to the correct funds and line items. All applicable receipts will be posted at gross, not net and all receipts and expenditures will be reviewed for accuracy.

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Finding 2009-03 *Material Weakness*

Payroll Reporting

During testing of payroll we noted a number of unusual payroll practices used by the Township to record the salaries/wages of its employees and also multiple improper postings of employer's portions of Medicare, OPERS, hospitalization and worker's compensation.

1. The Township issued paychecks to individuals for \$0.00 and showed a deduction from the gross pay. The Township would then issue one lump sum paycheck to the financial institution and have the Township secretary deliver the check to the financial institution for deposit into the employee's account, thus making it difficult to identify whether the employee's pay was recorded in the appropriate fund. It is our understanding that this practice was considered to be similar to direct deposit.

We recommend that the Township establish direct deposit with their appropriate financial institution and eliminate the unusual deduction from the payroll system or issue a true paper check directly to the employee.

2. On numerous occasions the Township recorded employer portions of payroll benefits in the salary/employee line items. Medicare employer deductions were recorded in the general ledger as paid from the same line item used to record employee's payroll. There were also instances of the employer's portion of OPERS and Worker's Compensation being recorded in the salaries and wages line items to be used to record employee salaries.

We recommend the Township review its recording processes and procedures to properly record employer portions of pension, benefits and taxes separate from that which are being withheld from the employees.

3. The Township currently posts its employee salaries/wages to the general ledger at the net amount paid after all deductions have been made via the payroll system. The Township then lumps the deductions into one check made to the various entities that they go to. For example, the road department has five employees and they would all be recorded individually in the general ledger at their net payroll, then the sum of all five employees' deductions for Medicare, Federal income tax, PERS, Ohio income tax, the unusual deduction for direct deposit as noted in #1, union dues, etc. The most difficult to follow are the PERS and Ohio income tax withholdings that are paid monthly and thus are an accumulation of three to four pay periods of five individuals lumped together and posted to the general ledger as paid in the month following the actual occurrence of the pay periods that the withholdings are from.

We recommend the Township obtain another bank account with a financial institution that is acceptable and meets the requirements of the Ohio Revised Code, to use as a payroll clearing account. The basic premise of the account would be to pay all employee salaries, and withholding from the account. At the end of the pay period the Fiscal Officer would transfer

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money from the general checking bank account to the payroll bank account to cover all salaries and withholdings calculated while performing the general payroll process. At the time of the general checking account transfer to the payroll account an entry would be made to the general ledger for the gross amount paid to each employee in the fund that would be appropriate to pay them from. Then all the separate payments for the net amount of salaries and the withholdings can be tracked through the payroll system and reconciled to the bank account accordingly.

Officials Response:

If the Township's accounting software will allow for this type of procedure, the Township will obtain another bank account to use a payroll clearing account. The Township is also looking into the UAN system, as they feel it will be more user friendly for payroll and other accounting procedures.

Finding 2009-04 Significant Deficiency

Budgetary Reporting

The Township should have internal controls in place to reasonably assure that budgetary accounts are integrated into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted appropriation balances.

The Township's Fiscal Officer did not accurately post budgeted receipts, appropriations, and amendments to the accounting system.

Because the information entered into the accounting system was inaccurate, Township management was unable to effectively monitor budgetary activity throughout the year. Adjustments were made to the budgetary activity reported in Note 3 to the financial statements in order to accurately present appropriations approved by the Township Trustees and only include budgeted receipts as certified by the County Auditor.

Officials Response:

The Township will approve all appropriation amendments, record approval in the Board minutes, and file all appropriation amendments with the County Auditor. The Township Fiscal Officer will not post these amendments until after the required approvals have been obtained. The Township fiscal officer will only record estimated receipts from the Certificate of Estimated Resources and amendments.

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Finding 2009-05 Noncompliance

Section 5705.10(H), Revised Code, requires that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

Per our budgetary testing we noted that a negative fund balance existed in the Debt Service Fund of (\$17,938) in both 2008 and 2009 and in the Road and Bridge Fund of (\$731) in 2009.

Officials Response:

The Township trustees will authorize the Fiscal Officer to transfer \$17,938 from the General Fund to the Debt Service Fund to correct the negative balance in the Debt Service Fund. In the future the Township will use monies in funds only for the purpose for which the fund was established.

Finding 2009-06 Noncompliance

Section 5705.39, Revised Code, provides in part that total appropriations from each fund shall not exceed the total estimated resources.

During our budgetary testing, it was noted that total appropriations exceeded estimated resources in the following funds for the years ended December 31:

	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
<u>2009</u>			
General	\$235,270	\$306,094	(\$70,824)
Gasoline Tax	\$139,465	\$155,436	(\$15,971)
Road and Bridge	\$287,398	\$369,089	(\$81,691)
FEMA	\$20,501	\$29,423	(\$8,922)
Debt Service	(\$17,938)	\$0	(\$17,938)
<u>2008</u>			
General	\$318,441	\$453,969	(\$135,528)
Road and Bridge	\$340,428	\$340,978	(\$550)
Fire District	\$1,405,439	\$1,551,903	(\$146,464)
Fire Education	\$3,848	\$4,750	(\$902)
FEMA	\$0	\$28,000	(\$28,000)
EMS	\$297,148	\$316,344	(\$19,196)
Debt Service	(\$14,893)	\$0	(\$14,893)

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Officials Response:

The Township's Fiscal Officer will ask for an amendment to the appropriations from the Township Board in order for the total appropriations to not exceed estimated resources.

Finding 2009-07 *Noncompliance*

Section 5705.36(A)(4), Revised Code, requires obtaining a reduced amended certificate of estimated resources if the amount of the deficiency will reduce available resources below the current level of appropriation.

During our budgetary testing it was noted that total appropriations exceeded actual resources in the following funds for the years ended December 31:

	<u>Total Actual Resources</u>	<u>Total Appropriations</u>	<u>Variance</u>
<u>2009</u>			
General	\$254,618	\$306,094	(\$51,476)
Road and Bridge	\$259,347	\$369,089	(\$109,742)
Fire District	\$1,535,739	\$1,621,860	(\$86,121)
FEMA	\$19,501	\$29,423	(\$9,922)
Debt Service	(\$17,938)	\$0	(\$17,938)
<u>2008</u>			
General	\$400,197	\$453,969	(\$53,772)
EMS	\$307,439	\$316,344	(\$8,905)
Debt Service	(\$17,938)	\$0	(\$17,938)

Officials Response:

The Township's Fiscal Officer will amend the certificate of estimated resources and ask for an amendment to the appropriations from the Township Board in order for the total appropriations to not exceed estimated resources.

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Finding 2009-08 Noncompliance

Section 5705.41(B), Revised Code, requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

Our budgetary testing revealed that expenditures exceeded appropriations in the following funds for the years ended December 31:

	<u>Total</u> <u>Expenditures</u>	<u>Total</u> <u>Appropriations</u>	<u>Variance</u>
2009			
Fire Education	\$5,218	\$3,311	(\$1,907)
2008			
Road and Bridge	\$528,580	\$340,978	(\$187,602)

Officials Response:

The Township's Fiscal Officer will ask for an amendment to the appropriations from the Township Board in order for the total appropriations to not exceed estimated resources.

MADISON TOWNSHIP
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SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected</u>	<u>Not Corrected, Partially Corrected, Significantly Different Correction Action Taken, or Finding No Longer Valid; Explain</u>
2007-01	Bank reconciliations not properly and timely reconciled	No	Not Corrected, reissued as Finding 2009-01
2007-02	Financial reporting	No	Not Corrected, reissued as Finding 2009-02
2007-03	Payroll reporting	No	Partially Corrected, reissued as Finding 2009-03
2007-04	Transfers unauthorized	Yes	Finding no longer valid.
2007-05	Incorrect posting of tax monies into Debt Service Fund	Yes	Finding no longer valid.
2007-06	Budgetary reporting	No	Partially Corrected, reissued as Finding 2009-04
2007-07	ORC Section 5705.41(D)(1) Expenditures made without proper certification	Yes	Finding no longer valid.
2007-08	ORC Section 5705.39 Appropriations exceeded estimated resources	No	Not Corrected, reissued as Finding 2009-06
2007-09	ORC Section 5705.36(A)(4) Appropriations exceeded actual resources	No	Not Corrected, reissued as Finding 2009-07
2007-10	ORC Section 5705.41(B) Expenditures exceeded appropriations	No	Not Corrected, reissued as Finding 2009-08



Dave Yost • Auditor of State

MADISON TOWNSHIP

RICHLAND 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
JULY 19, 2011**