

MCDONALD TOWNSHIP

HARDIN COUNTY

REGULAR AUDIT

JANUARY 1, 2009 THROUGH DECEMBER 31, 2010

YEARS AUDITED UNDER GAGAS: 2009 AND 2010



Caudill & Associates, CPA

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Dave Yost • Auditor of State

Board of Trustees
McDonald Township
7830 County road 200
Belle Center, Ohio 43310

We have reviewed the *Independent Auditors' Report* of McDonald Township, Hardin County, prepared by Caudill & Associates, CPAs, for the audit period January 1, 2009 through December 31, 2010. 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 Auditors' 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 Auditors' 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. McDonald 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

November 15, 2011

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**MCDONALD TOWNSHIP
HARDIN COUNTY**

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INDEPENDENT AUDITOR'S REPORT

McDonald Township
Hardin County
7830 County Road 200
Belle Center, Ohio 43310

To the Board of Trustees:

We have audited the accompanying financial statements of McDonald Township, Hardin County, (the Township) as of and for the years ended December 31, 2010 and 2009. 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 require 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.

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, 2010 and 2009 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, 2010 and 2009, or its changes in financial position for the years then ended.

McDonald Township
Hardin County

Independent Auditor's Report (Continued)

A Finding for Adjustment was issued against the Township by the Ohio State Auditor's Office during the prior audit period requesting the Township to decrease the General Fund Fund Balance by \$14,746 and to increase the Gas Tax Fund Fund Balance by 14,746. We were unable to obtain documentation that the Fund Balances were adjusted in accordance to the issued Finding for Adjustment. As a result, the December 31, 2010 General Fund Fund Balance is overstated by \$14,746 and the December 31, 2010 Gas Tax Fund Fund Balance is understated by \$14,746.

Also, in our opinion, except for the effects of such adjustments described above, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of McDonald Township, Hardin County, as of December 31, 2010 and 2009, 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 August 5, 2011, 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.

Caudill & Associates, CPA

Caudill & Associates, CPA

August 5, 2011

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$ 51,465	\$ 34,217	\$ 85,682
Licenses, Permits, and Fees	-	5,025	5,025
Intergovernmental	21,117	102,578	123,695
Earnings on Investments	497	497	994
Miscellaneous	1,651	1,650	3,301
	<u>74,730</u>	<u>143,967</u>	<u>218,697</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	36,849	-	36,849
Public Safety	-	12,204	12,204
Public Works	-	90,497	90,497
Health	6,784	12,088	18,872
Conservation - Recreation	6,250	-	6,250
Capital Outlay	755	3,643	4,398
Debt Service:			
Redemption of Principal	-	4,381	4,381
Interest and Other Fiscal Charges	-	1,402	1,402
	<u>50,638</u>	<u>124,215</u>	<u>174,853</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	<u>24,092</u>	<u>19,752</u>	<u>43,844</u>
Other Financing Receipts / (Disbursements):			
Other Financing Uses	-	(1,003)	(1,003)
	<u>-</u>	<u>(1,003)</u>	<u>(1,003)</u>
Total Other Financing Receipts / (Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	<u>24,092</u>	<u>18,749</u>	<u>42,841</u>
Fund Cash Balances, January 1	<u>76,504</u>	<u>223,580</u>	<u>300,084</u>
Fund Cash Balances, December 31	<u>\$ 100,596</u>	<u>\$ 242,329</u>	<u>\$ 342,925</u>

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

**MCDONALD TOWNSHIP
HARDIN 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**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$ 48,631	\$ 32,148	\$ 80,779
Licenses, Permits, and Fees	-	3,000	3,000
Intergovernmental	22,849	91,260	114,109
Earnings on Investments	548	548	1,096
Miscellaneous	2,665	-	2,665
	<u>74,693</u>	<u>126,956</u>	<u>201,649</u>
Cash Disbursements:			
Current:			
General Government	44,351	-	44,351
Public Safety	-	11,808	11,808
Public Works	-	63,561	63,561
Health	5,629	10,230	15,859
Conservation - Recreation	6,250	-	6,250
Capital Outlay	-	5,241	5,241
Debt Service:			
Redemption of Principal	-	4,381	4,381
Interest and Other Fiscal Charges	-	1,402	1,402
	<u>56,230</u>	<u>96,623</u>	<u>152,853</u>
Total Cash Disbursements	<u>56,230</u>	<u>96,623</u>	<u>152,853</u>
Total Receipts Over/(Under) Disbursements	<u>18,463</u>	<u>30,333</u>	<u>48,796</u>
Other Financing Receipts / (Disbursements):			
Other Financing Sources	300	-	300
	<u>300</u>	<u>-</u>	<u>300</u>
Total Other Financing Receipts / (Disbursements)	<u>300</u>	<u>-</u>	<u>300</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	18,763	30,333	49,096
Fund Cash Balances, January 1	<u>57,741</u>	<u>193,247</u>	<u>250,988</u>
Fund Cash Balances, December 31	<u>\$ 76,504</u>	<u>\$ 223,580</u>	<u>\$ 300,084</u>

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

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of McDonald Township, Hardin County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance. The Township contracts with Roundhead Township, Richland Township and McGuffey Volunteer Fire Company to provide fire services and ambulance services.

The Township participates in the public entity risk pool, joint venture, and two jointly governed organizations. Notes 7, 8, and 9 to the financial statements provides additional information for these entities. These organizations are:

Public Entity Risk Pool:

Ohio Township Association Risk Management Authority (OTARMA), a risk sharing pool available to Ohio townships.

Joint Venture:

The McDonald-Roundhead Joint Recreational District (JRD), a joint park district operated with Roundhead Township.

Jointly Governed Organizations:

Upper Scioto Valley Ambulance District, a jointly governed organization that provides emergency medical services within the District.

Hardin County Regional Planning Commission, the Commission provides studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economical, and governmental characteristics, functions, and services of the County.

The Township's management believes these financial statements present all activities for which the Township is financially accountable.

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Township values certificates of deposit at cost.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

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 reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from private-purpose 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.

Cemetery Fund - This fund receives tax receipts, receipts for the sale of lots, and receipts for opening and closing graves. These monies are used to manage the cemetery.

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.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. Equity in Pooled Deposits and Investments

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

	2010	2009
Demand Deposits	\$ 326,985	\$ 284,340
Certificates of Deposits	15,940	15,744
Total Deposits	\$ 342,925	\$ 300,084

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$61,461	\$74,730	\$13,269
Special Revenue	131,702	143,967	12,265
Total	\$193,163	\$218,697	\$25,534

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$118,577	\$50,638	\$67,939
Special Revenue	224,156	125,218	98,938
Total	\$342,733	\$175,856	\$166,877

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$54,308	\$74,993	\$20,685
Special Revenue	133,227	126,956	(6,271)
Total	\$187,535	\$201,949	\$14,414

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$118,309	\$56,230	\$62,079
Special Revenue	223,106	96,623	126,483
Total	\$341,415	\$152,853	\$188,562

4. Property Tax

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

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

5. Retirement Systems

The Township's elected officials and part-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes these plans' benefits, which include post-retirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, OPERS members contributed 10% of their gross salaries. The Township contributed an amount equaling 14% of participants' gross salaries. As of December 31, 2010 the Township has paid all contributions required.

6. Debt

Debt outstanding at December 31, 2010 was as follows:

	Principal	Interest Rate
Note Payable, Union Banking Company	\$11,212	6%

The note was issued during 2007 and was used to finance the purchase of a new truck to be used for the maintenance of the township roads.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

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

	Note Payable, Union
Year ending December 31:	<u>Banking Company</u>
2011	\$5,783
2012	5,783
Total	<u><u>\$11,566</u></u>

7. Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees. The Township insures against injuries to employees through the Ohio Bureau of Workers' Compensation.

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 and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2009, OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does 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 the generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2009 and 2008 (the latest information available):

	<u>2009</u>	<u>2008</u>
Assets	\$38,982,088	\$40,737,740
Liabilities	<u>(12,880,766)</u>	<u>(12,981,818)</u>
Net Assets	<u><u>\$26,101,322</u></u>	<u><u>\$27,755,922</u></u>

At December 31, 2009 and 2008, respectively, casualty coverage liabilities noted above include approximately \$12.0 million and \$12.1 million of estimated incurred claims payable. The assets above also include approximately \$11.5 and \$10.9 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Township's share of these unpaid claims collectible in future years is approximately \$5,300.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

The Township's contributions to OTARMA for the past three years are as follows:

<u>Year</u>	<u>Contribution</u>
2008	\$3,709
2009	\$2,938
2010	\$3,484

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to withdrawal.

8. Joint Venture

Joint Recreational District – The McDonald-Roundhead Joint Recreational District (JRD) was established during 2001. The JRD is operated by a five member Board consisting of representatives from both McDonald Township and Roundhead Township. The Trustees of each township select the JRD Board, whose members have staggered terms to allow the JRD Board to consist of three members representing McDonald Township in one year and three members representing Roundhead Township the following year. During the initial year, the McDonald Township Trustees appointed three members to the JRD Board (one 3 year term, one 2 year term, and one 1 year term) and two members (one 3 year term and one 2 year term) were appointed by the Roundhead Township Trustees. The two townships budget and fund the McDonald-Roundhead Joint Recreational District in shares proportionate to the tax valuations of each township, in such amounts as the Township Trustees mutually agreed upon.

9. Jointly Governed Organizations

The Upper Scioto Valley Ambulance District (the District) is a jointly governed entity governed by a five member Board of Trustees. Each political subdivision within the District appoints one member. Those subdivisions are Marion Township, McDonald Township, Roundhead Township, the Village of Alger, and the Village of McGuffey, in Hardin County. The District provides ambulance services within the District.

The Hardin County Regional Planning Commission (the Commission) is a jointly venture between the County, the Municipalities, and the Townships within the County. The degree of control exercised by any participating government is limited to its representation on the Board. The Board is comprised of twenty-seven members, any of which may hold any other public office. The Township is represented by one member.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economical, and governmental characteristics, functions, and services of the County. Each participating government may be required to contribute an assessment per capita, according to the latest federal census, in any calendar year in which the revenue is needed. Financial information can be obtained by contacting Mark Doll, Director, One Courthouse Square, Suite 130, Kenton, Ohio 43326.

10. Related Party Transactions

A Township Trustee is the owner of a welding company from which the Township acquired services during 2009. The Township paid \$447 for these services. The Trustee abstained from voting on the matter.

11. Compliance

Contrary to Ohio Revised Code Section 5705.39, appropriations exceeded available resources in the General Fund by \$6,260 in 2009.



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

McDonald Township
Hardin County
7830 County Road 200
Belle Center, Ohio 43310

To the Board of Trustees:

We have audited the financial statements of McDonald Township, Hardin County, (the Township) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated August 5, 2011, which was qualified because we were unable to obtain documentation that the Township's General Fund and Gas Tax Fund Fund Balances were adjusted in accordance with a Finding for Adjustment issued by the Ohio State Auditor's Office in the prior audit period. We also noted the Township followed accounting practices the Auditor of State prescribes rather than 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 a certain deficiency in internal control over financial reporting, that we consider a material weakness 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 entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-02 described in the accompanying schedule of findings and responses to be a material weakness.

McDonald Township
Hardin County

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards* (Continued)

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 findings 2010-01 and 2010-04 described in the accompanying schedule of findings and responses to be significant deficiencies.

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 two instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings and responses as items 2010-03 and 2010-05.

We did note a certain matter not requiring inclusion in this report that we reported to the Township's management in a separate letter dated August 5, 2011.

We intend this report solely for the information and use of management, Board of Trustees and Auditor of State. We intend it for no one other than these specified parties.

Caudill & Associates, CPA

Caudill & Associates, CPA

August 5, 2011

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-01

Significant Deficiency – Accuracy of Bank-to-Book Reconciliations

The Township should prepare accurate bank-to-book reconciliations to help detect errors and/or irregularities. In addition, supporting documentation should exist for each item on the reconciliation. The Township bank-to-book reconciliations included unsupported reconciling items due to the improper recording of certificates of deposits that had been redeemed by the Township. Failure to record interest revenue and electronic funds transfers (EFT) payments also contributed to the inaccuracy of the bank to book reconciliations. These situations inhibit the Township's ability to make decisions that are based on sound financial information and could be an indicator of errors or irregularities in the processing of financial data.

The Township should review its financial records to determine the source(s) of the un-reconciled balance. After the source has been identified, an adjustment(s) should be made to the financial records to eliminate this variance. Support for the adjustment(s) should be maintained, and approval should be noted in the minutes.

Township Response:

The Township will look into the variance to determine the correct actions that need to be taken.

FINDING NUMBER 2010-02

Material Weakness – Failure to Post Issued Finding for Adjustment

A Finding for Adjustment was issued by the Ohio State Auditor's Office during the prior audit period requesting the Township to decrease the General Fund Fund Balance by \$14,746 and to increase the Gas Tax Fund Fund Balance by \$14,746. The Township did not adjust the respective Fund Balances as requested by the Ohio Auditor of State and as a result, the General Fund and Gas Tax Fund Fund Balances are materially misstated.

The Township should post all proposed audit adjustments in a timely manner to fairly present the financial position of the Township.

Township Response:

McDonald Township has been advised by our County Pros. Atty., to not make these changes. Per O.R.C. 505.24 (C) the first paragraph cites when township trustees are paid per-diem and not on an annual salary basis. McDonald Township trustees are paid on an annual basis (second paragraph will apply to McDonald Township). The only requirement of the trustees, according to 505.24(C) second paragraph, is a resolution dictating what portions of the trustees annual salary shall be paid from the General Fund and from the Gas Fund. Nowhere is there the requirement that the trustees keep track of the amount of time spent of any specific services to be paid out of township funds as you have indicated needs to be done. In fact the keeping of time sheets was removed from this statute in 1981 which is stated in the Opinion 2004-036 footnote #5. McDonald Township has been advised we do not need adjustments based on this misplaced authority. We have been instructed to follow O.R.C. 505.24(C) and do the resolution dictating what percentages of our annual salary is to be paid from the General Fund and Gas Fund.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-03

Noncompliance Citation – Ohio Revised Code Section 5705.39

The Ohio Revised Code Section 5705.39 requires in part that total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

During 2009, total appropriations for the General Fund exceeded the total estimated resources by \$6,260.

Failure to monitor appropriations against estimated resources may result in appropriations exceeding the estimated resources and further may result in expenditures in excess of available resources. The Township should monitor the appropriations against estimated resources and make modifications as necessary to the appropriations.

Township Response:

The Township will work more closely with the County Auditor.

FINDING NUMBER 2010-04

Significant Deficiency – Misclassification of Debt Payments

The Township erroneously recorded principal and interest payments as capital outlay during 2009 and 2010.

Failure to properly record debt payments required audit adjustments to fairly present the debt activity of the Township.

We recommend the Township review the UAN accounting manual and properly record debt payments as principal and interest.

Township Response:

The Township will review the accounting manual to make these entries.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2010 AND 2009**

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

FINDING NUMBER 2010-05

Noncompliance Citation - 26 U.S.C. §3403: Employers Liable for Payment of the Tax Deducted and Withheld

The Township under-reported wages on quarterly 941s by \$7,239 and \$2,368 during 2009 and 2010, respectively and over-reported wages to the Bureau of Workers' Compensation by \$5,723 during 2010.

Inaccurate reporting of wages may lead to under/over payments of taxes, unnecessary penalties and interest and bureau of workers' compensation premiums.

We recommend the Township review its financial records to ensure wages are accurately reported to the appropriate state and federal authorities.

Township Response:

The Township has already spoken with these agencies to make the necessary corrections.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2008-01	Ohio Rev. Code Section 5705.39	No	Reissued as Finding 2010-03
2008-02	Significant deficiency – Accuracy of bank-to-book reconciliations	No	Reissued as Finding 2010-01
2008-03	Significant deficiency/ material weakness/ noncompliance citation Ohio Rev. Code Section 505.24	Yes	Corrected
2008-04	Significant deficiency/ material weakness – Misclassification of receipts and disbursements	No	Reissued as Finding 2010-04
Finding for Adjustment	General Fund and Gas Tax Fund adjustment.	No	Finding 2010-02

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Dave Yost • Auditor of State

MCDONALD TOWNSHIP

HARDIN 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
NOVEMBER 29, 2011**