



**Auditor of State
Betty Montgomery**

MCDONALD TOWNSHIP
HARDIN COUNTY

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**Auditor of State
Betty Montgomery**

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

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS 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. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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Betty Montgomery
Auditor of State

October 27, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' 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, 2004 and 2003. 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. The Township processes its financial transactions with 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 audit 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 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 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.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, 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.

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In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 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, 2004, or its changes in financial position for the year 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 the Township, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. 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 20, 2005, 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.



Betty Montgomery
Auditor of State

October 27, 2005

**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, 2004**

| | <u>Governmental Fund Types</u> | | <u>Totals (Memorandum Only)</u> |
|--|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Local Taxes | \$28,602 | \$29,646 | \$58,248 |
| Intergovernmental | 37,347 | 81,153 | 118,500 |
| Licenses, Permits, and Fees | | 4,400 | 4,400 |
| Earnings on Investments | 891 | 310 | 1,201 |
| Miscellaneous | 1,783 | 4,050 | 5,833 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts | 68,623 | 119,559 | 188,182 |
| | <hr/> | <hr/> | <hr/> |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 41,292 | | 41,292 |
| Public Safety | | 13,381 | 13,381 |
| Public Works | | 69,175 | 69,175 |
| Health | 6,300 | 15,408 | 21,708 |
| Conservation - Recreation | 6,125 | | 6,125 |
| Capital Outlay | 14,895 | 8,425 | 23,320 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Disbursements | 68,612 | 106,389 | 175,001 |
| | <hr/> | <hr/> | <hr/> |
| Total Receipts Over Disbursements | 11 | 13,170 | 13,181 |
| Fund Cash Balances, January 1 | 54,681 | 99,295 | 153,976 |
| | <hr/> | <hr/> | <hr/> |
| Fund Cash Balances, December 31 | <u>\$54,692</u> | <u>\$112,465</u> | <u>\$167,157</u> |
| | <hr/> | <hr/> | <hr/> |
| Reserve for Encumbrances, December 31 | <u>\$10,000</u> | <u>\$9,657</u> | <u>\$19,657</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, 2003**

| | <u>Governmental Fund Types</u> | | <u>Totals (Memorandum Only)</u> |
|---|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Local Taxes | \$30,854 | \$29,789 | \$60,643 |
| Intergovernmental | 23,410 | 70,777 | 94,187 |
| Licenses, Permits, and Fees | | 4,900 | 4,900 |
| Earnings on Investments | 1,117 | 277 | 1,394 |
| Miscellaneous | 2,100 | 4,400 | 6,500 |
| | <u>57,481</u> | <u>110,143</u> | <u>167,624</u> |
| Total Cash Receipts | | | |
| | <u>57,481</u> | <u>110,143</u> | <u>167,624</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 63,907 | | 63,907 |
| Public Safety | | 10,538 | 10,538 |
| Public Works | | 50,817 | 50,817 |
| Health | 6,714 | 17,835 | 24,549 |
| Conservation - Recreation | 4,500 | | 4,500 |
| Capital Outlay | 2,779 | 11,135 | 13,914 |
| | <u>77,900</u> | <u>90,325</u> | <u>168,225</u> |
| Total Cash Disbursements | | | |
| | <u>77,900</u> | <u>90,325</u> | <u>168,225</u> |
| Total Receipts Over/(Under) Disbursements | (20,419) | 19,818 | (601) |
| Fund Cash Balances, January 1 | <u>75,100</u> | <u>79,477</u> | <u>154,577</u> |
| Fund Cash Balances, December 31 | <u><u>\$54,681</u></u> | <u><u>\$99,295</u></u> | <u><u>\$153,976</u></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, 2004 AND 2003**

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, and cemetery maintenance. The Township contracts with Roundhead Township, Richland Township, and the McGuffey Volunteer Fire Company for fire protection and medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements. 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. Cash 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.

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 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 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.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Unencumbered appropriations lapse at year end.

2. 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.

3. Encumbrances

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

A summary of 2004 and 2003 budgetary activity appears in Note 3.

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 CASH AND INVESTMENTS

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

| | <u>2004</u> | <u>2003</u> |
|-------------------------|------------------|------------------|
| Demand deposits | \$112,236 | \$109,706 |
| Certificates of deposit | 54,921 | 44,270 |
| Total deposits | <u>\$167,157</u> | <u>\$153,976</u> |

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Township

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

| 2004 Budgeted vs. Actual Receipts | | | |
|--|------------------------------|----------------------------|-----------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$57,401 | \$68,623 | \$11,222 |
| Special Revenue | 96,100 | 119,559 | 23,459 |
| Total | \$153,501 | \$188,182 | \$34,681 |

| 2004 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|--|------------------------------------|-----------------------------------|-----------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$112,450 | \$78,612 | \$33,838 |
| Special Revenue | 147,497 | 116,046 | 31,451 |
| Total | \$259,947 | \$194,658 | \$65,289 |

| 2003 Budgeted vs. Actual Receipts | | | |
|--|------------------------------|----------------------------|-----------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$59,401 | \$57,481 | (\$1,920) |
| Special Revenue | 88,563 | 110,143 | 21,580 |
| Total | \$147,964 | \$167,624 | \$19,660 |

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|--|------------------------------------|-----------------------------------|-----------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$131,944 | \$77,900 | \$54,044 |
| Special Revenue | 146,846 | 90,325 | 56,521 |
| Total | \$278,790 | \$168,225 | \$110,565 |

The Township recorded some restricted revenues in the wrong fund which violated Ohio Rev. Code Section 5705.10.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt 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.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. PROPERTY TAX (Continued)

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

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

5. RETIREMENT SYSTEMS

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OPERS is a cost-sharing, multiple-employer pension plan. The Ohio Revised Code prescribes this plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries during the period from January 1, 2003 through December 31, 2004.

6. RISK MANAGEMENT

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per 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. Townships 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 in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. 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.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

6. RISK MANAGEMENT (Continued)

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:

| <u>Casualty Coverage</u> | <u>2004</u> | <u>2003</u> |
|--------------------------|---------------------|---------------------|
| Assets | \$30,687,203 | \$27,792,223 |
| Liabilities | <u>(13,640,962)</u> | <u>(11,791,300)</u> |
| Retained earnings | <u>\$17,046,241</u> | <u>\$16,000,923</u> |
| | | |
| <u>Property Coverage</u> | <u>2004</u> | <u>2003</u> |
| Assets | \$7,799,073 | \$6,791,060 |
| Liabilities | <u>(753,906)</u> | <u>(750,956)</u> |
| Retained earnings | <u>\$7,045,167</u> | <u>\$6,040,104</u> |

7. 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 valuation of each township, in such amount as the township trustees mutually agree upon.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' 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, 2004 and 2003, and have issued our report thereon dated October 27, 2005 wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, 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 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine 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 2004-004.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when 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 material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Township's management dated October 27, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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 as items 2004-001 through 2004-003. In a separate letter to the Township's management dated October 27, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management and Board of Trustees. It is not intended for 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

October 27, 2005

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-001

Noncompliance

Ohio Rev. Code Section 5705.10 states that all revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made. During 2004 and 2003, the Township did not record homestead and rollback revenue, which is derived from tax levies, in the Special Revenue Cemetery, Road and Bridge, Roundhead Fire Levy, Richland Fire Levy and McGuffey Fire Levy Funds which received the tax levy money.

The Township has agreed to make the necessary adjustments to increase/decrease fund balances to properly reflect these amounts. The financial statements in this report reflect these adjustments. These adjustments had the following net effect upon the respective fund balances:

| | <u>General Fund</u> | <u>Cemetery Fund</u> | <u>Road and Bridge Fund</u> | <u>Roundhead Fire Levy Fund</u> | <u>Richland Fire Levy Fund</u> | <u>McGuffey Fire Levy Fund</u> |
|------|-------------------------|--------------------------|-------------------------------------|---|--|--|
| 2004 | (\$3,715) | \$1,080 | \$144 | \$1,009 | \$544 | \$938 |
| 2003 | (\$3,632) | \$1056 | \$140 | \$998 | \$526 | \$912 |

The Trustees and/or audit committee should implement monitoring procedures to help assure Homestead and Rollback Revenue is credited to each fund receiving tax levy proceeds. The allocation for each fund can be obtained from the tax settlement sheets provided by the County Auditor.

FINDING NUMBER 2004-002

Noncompliance

26 U.S.C. Section 3102 (a) states that the tax imposed by Section 3101(b) shall be collected by the employer of the taxpayer, by deducting the amount of the tax from the wages of the employee. Failure to withhold and remit the correct amount of medicare tax from the wages of employees could result in the Township being liable for this tax and the employer share, plus interest and penalties.

During 2004 and 2003, the Township withheld medicare tax from the wages of its employees but did not remit either the amount withheld or the Township's share. The Township also failed to withhold and remit the proper medicare tax from its officials and employees during 2002 and 2001. As of December 31, 2004, the aggregate amount of unpaid employee and employer Medicare taxes owed by the Township was \$2,882. The Township should contact the IRS to work out a payment schedule and to try to receive a waiver from any penalties and interest. In addition, each employee should be notified of this issue.

The Trustees and/or audit committee should implement monitoring procedures to help assure that medicare tax is correctly withheld and remitted, including the employer share.

FINDING NUMBER 2004-003

Noncompliance

26 U.S.C. Section 3403 states that the employer shall be liable for the payment of the tax required to be deducted and withheld under 26 U.S.C. 3402. The Township withheld Federal income tax from the employees and officials during 2004 and 2003 but did not remit withholdings as required. The Township also failed to remit the income tax withholdings of its officials and employees during 2002 and 2001. As of December 31, 2004, the aggregate amount of federal income tax withholdings not remitted by the Township was \$4,162. The Township should contact the IRS to work out a payment schedule and to try to receive a waiver from any penalties and interest. In addition, each employee should be notified of this issue.

The Trustees and/or audit committee should implement monitoring procedures to help assure that federal income tax is properly remitted.

FINDING NUMBER 2004-004

Reportable Condition

Accuracy and Timeliness of Bank to Book Reconciliations

The Township should prepare accurate and timely 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's bank-to-book reconciliations, which were not always prepared in a timely manner, included outstanding checks that had cleared the bank and unsupported reconciling items. The failure to record interest revenue 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 and/or irregularities in the processing of financial data.

The Township should review their 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. In addition, checks that have cleared the bank should be removed from the outstanding check list and checks that have not cleared the bank should not be removed from the outstanding check list unless they have been voided from the system. Interest revenue should be recorded in a timely manner. Review procedures should then be implemented by the audit committee to help assure that monthly reconciliations are accurate and performed in a timely manner.

MCDONALD TOWNSHIP
HARDIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2002-001 | The Township clerk failed to perform bank-to-book reconciliations | No | Repeated as finding 2004-004 |



**Auditor of State
Betty Montgomery**

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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
DECEMBER 6, 2005**