



Mary Taylor, CPA
Auditor of State

MCDONALD TOWNSHIP
HARDIN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings.....	21

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Mary Taylor, CPA
Auditor of State

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 an 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 adverse 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 29, 2007

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Mary Taylor, CPA

Auditor of State

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, 2006 and 2005. 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.

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, 2006 and 2005 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, 2006 and 2005, 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 McDonald Township, Hardin County, as of December 31, 2006 and 2005, 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 November 29, 2007, 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.



Mary Taylor, CPA
Auditor of State

November 29, 2007

**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, 2006**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$29,706	\$30,098	\$59,804
Licenses, Permits, and Fees		5,410	5,410
Intergovernmental	26,445	97,070	123,515
Earnings on Investments	1,185	1,185	2,370
Miscellaneous	177	1,875	2,052
	<u>57,513</u>	<u>135,638</u>	<u>193,151</u>
Total Cash Receipts			
	<u>57,513</u>	<u>135,638</u>	<u>193,151</u>
Cash Disbursements:			
Current:			
General Government	63,816		63,816
Public Safety		12,544	12,544
Public Works		46,538	46,538
Health	6,320	16,504	22,824
Conservation - Recreation	9,836		9,836
Capital Outlay	4,138	5,898	10,036
	<u>84,110</u>	<u>81,484</u>	<u>165,594</u>
Total Cash Disbursements			
	<u>84,110</u>	<u>81,484</u>	<u>165,594</u>
Total Receipts Over/(Under) Disbursements	<u>(26,597)</u>	<u>54,154</u>	<u>27,557</u>
Fund Cash Balances, January 1	<u>40,672</u>	<u>129,231</u>	<u>169,903</u>
Fund Cash Balances, December 31	<u>\$14,075</u>	<u>\$183,385</u>	<u>\$197,460</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$7,983</u>	<u>\$7,983</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, 2005**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Other Local Taxes	\$31,835	\$32,377	\$64,212
Licenses, Permits, and Fees		5,300	5,300
Intergovernmental	36,400	155,953	192,353
Earnings on Investments	791	712	1,503
Miscellaneous	1,513	1,875	3,388
Total Cash Receipts	<u>70,539</u>	<u>196,217</u>	<u>266,756</u>
Cash Disbursements:			
Current:			
General Government	68,067		68,067
Public Safety		12,953	12,953
Public Works		146,456	146,456
Health	6,374	16,931	23,305
Conservation - Recreation	6,250		6,250
Capital Outlay	3,868	3,111	6,979
Total Cash Disbursements	<u>84,559</u>	<u>179,451</u>	<u>264,010</u>
Total Receipts Over/(Under) Disbursements	<u>(14,020)</u>	<u>16,766</u>	<u>2,746</u>
Fund Cash Balances, January 1	<u>54,692</u>	<u>112,465</u>	<u>167,157</u>
Fund Cash Balances, December 31	<u>\$40,672</u>	<u>\$129,231</u>	<u>\$169,903</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, 2006 AND 2005**

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 to provide fire services and ambulance services.

The Township participates in a public entity risk pool, joint venture, and two jointly governed organizations. Notes 6, 7, and 8 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) is a joint park district operated with Roundhead Township.

Joint Governed Organizations:

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

Hardin County Regional Planning Commission - The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, 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. 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. The Township values certificates of deposit at cost.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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:

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.

FEMA Fund – This fund received money in 2005 from the Federal Emergency Management Agency to offset the costs incurred during the ice storm.

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.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2006 and 2005 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

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

	2006	2005
Demand deposits	\$169,331	\$143,015
Certificates of deposit	28,129	26,888
Total deposits	\$197,460	169,903

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, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$56,677	\$57,513	\$836
Special Revenue	119,150	135,638	16,488
Total	\$175,827	\$193,151	\$17,324

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$130,983	\$84,110	\$46,873
Special Revenue	192,591	89,467	103,124
Total	\$323,574	\$173,577	\$149,997

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$55,596	\$70,539	\$14,943
Special Revenue	109,525	196,217	86,692
Total	\$165,121	\$266,756	\$101,635

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$110,845	\$84,559	\$26,286
Special Revenue	147,621	179,451	(31,830)
Total	\$258,466	\$264,010	(\$5,544)

The Township violated Ohio Rev. Code Section 5705.09(F) when it failed to establish a separate fund to account for a FEMA grant. The Township violated Ohio Rev. Code Section 5705.10 (D) when it recorded some restricted money in the wrong fund.

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 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 postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. 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 Worker's 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.

A. Casualty Coverage

For an occurrence prior to January 1, 2006 OTARMA retains casualty risks up to \$250,000 per occurrence, including claim 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 \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

B. Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

6. RISK MANAGEMENT (Continued)

C. 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, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	(11,443,952)	(12,344,576)
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>
<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	(676,709)	(1,406,031)
Retained earnings	<u>\$ 9,334,254</u>	<u>\$7,771,765</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$7,408. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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.

<u>Contributions to OTARMA</u>	
2004	\$4,427
2005	\$4,460
2006	\$4,700

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 the withdrawal.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

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.

8. 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 joint 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 Village is represented by one member.

The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, 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 Mark Doll, Director, One Courthouse Square, Suite 130, Kenton, Ohio 43326

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Mary Taylor, CPA

Auditor of State

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, 2006 and 2005, and have issued our report thereon dated November 29, 2007, 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 Government 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. 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 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 expressing our opinion on the financial statements, but not to opine 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-005.

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**Internal Control over Financial Reporting
(Continued)**

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe findings numbered 2006-003 through 2006-005 are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated November 29, 2007.

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 we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as items 2006-001, 2006-004, and 2006-005.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated November 29, 2007.

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



Mary Taylor, CPA
Auditor of State

November 29, 2007

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Significant Deficiency/Finding for Recovery – Partially Repaid Under Audit

In 2005, the Fiscal Officer made six electronic funds transfers in the total amount of \$2,475.82 for State of Ohio income tax. However, no State of Ohio taxes were withheld from the wages of elected officials and employees of McDonald Township. In 2006, the Fiscal Officer made three electronic funds transfers in the total amount of \$1,504.16 for State of Ohio income tax. However, only \$585.20 in State of Ohio taxes was withheld from the wages of the elected officials and employees of McDonald Township. This resulted in an overpayment in the amount of \$918.96 for State of Ohio taxes in 2006. The total amount of State income taxes remitted in 2006 and 2005 in excess of the amount withheld was \$3,394.78. On December 7, 2007, the State of Ohio issued a credit in the amount of \$1,074.26 against the Township's future state tax liabilities. This leaves a balance of \$2,320.52 in State of Ohio income taxes remitted but not withheld from wages.

The Township should review the credit listed above and contact the Department of Taxation for clarity on the calculation of such, as needed. Further, procedures should be implemented to accurately withhold and remit all taxes. Finally, the Township should monitor future withholdings and remittances of the income tax until it is made whole financially.

In 2005, the Fiscal Officer made electronic funds transfers for school district income tax in the amount of \$375.40 to the State of Ohio. However, only \$255.60 in school district income taxes were withheld from the wages of elected officials and employees. This resulted in an overpayment in the amount of \$119.80 for school district income taxes in 2005. There is no evidence that a credit has been issued to McDonald Township for this overpayment.

On August 28, 2006, check # 6454 was issued for retirement withholding in the amount of \$366.90. The bank actually debited the Township's account for \$866.90, which is \$500 more than the amount on the check. The Fiscal Officer did not contact the bank to correct the issue after completing the monthly bank reconciliation, which should have helped to identify the error made by the bank. On December 27, 2007, the Township deposited a check from Chase Bank, in the amount of \$500, into the Township's bank account.

On September 25, 2006, the Fiscal Officer made an electronic funds transfer in the amount of \$980.50 in order to remit federal income and Medicare taxes for the third quarter of 2006. On September 29, 2006, the Fiscal Officer made a duplicate electronic funds transfer in the amount of \$980.50 in order to remit the third quarter 2006 federal income and Medicare taxes. This duplicate payment, in the amount of \$980.50, was repaid by the U.S. Federal Government, on December 10, 2007 with receipt number 116-2007.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code 117.28, a Finding for Recovery is hereby issued against Fiscal Officer Cynthia D. Shepherd, and her bonding company, The Ohio Township Association Risk Management Authority, jointly and severally, in the amount of \$2,440.32 and in favor of McDonald Township's General Fund.

FINDING NUMBER 2006-002

Significant Deficiency

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 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 transfer (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 and/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. In addition, checks that have not cleared the bank should not be removed from outstanding check list unless they have been voided from the system. Interest revenue and EFT's 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. Part of these procedures should include verifying the bank balances, outstanding checks, and any reconciling items.

FINDING NUMBER 2006-003

Material Weakness

Recording of Financial Activity

To assist in the effective management and reporting of financial resources, the Township should have procedures in place to help assure the proper recording of financial activity in the accounting records and financial statements. The Township's 2006 accounting records and financial statements included errors that resulted in audit adjustments that aggregated to a decrease of \$37,978 to the General Fund's ending fund balance; an increase of \$47 to the Motor Vehicle License Tax Fund's ending balance; a decrease of \$651 to the Gasoline Tax Fund's ending fund balance; an increase of \$303 to the Road and Bridge Fund's ending balance; an increase of \$2,274 to the Cemetery Fund's ending balance; an increase of \$2,186 to the Roundhead Fire Special Levy Fund's ending balance; an increase of \$1,158 to the Richland Fire Special Levy Fund's ending balance; and an increase of \$1,879 to the McGuffey Fire Special Levy Fund's ending balance.

These audit adjustments were made to reflect the changes in beginning fund balances due to the audit adjustments made to the 2005 financial statements; to record homestead and rollback settlements in the proper fund; and to record interest earned on certificates of deposits.

FINDING NUMBER 2006-003
(Continued)

The Township's 2005 accounting records and financial statements had errors that resulted in audit adjustments that aggregated to a decrease of \$34,641 to the General Fund's ending fund balance; a decrease of \$263 to the Motor Vehicle License Tax Fund's ending balance; a decrease of \$961 to the Gasoline Tax Fund's ending balance; an increase of \$149 to the Road and Bridge Fund's ending balance; \$1,117 increase to the Cemetery Fund's ending balance; an increase of \$1,064 to the Roundhead Fire Special Levy Fund's ending balance; a \$560 increase to the Richland Fire Special Levy Fund's ending balance; and an increase of \$952 to the McGuffey Fire Special Levy Fund's ending balance. These audit adjustments included adjustments to report the FEMA activity in the proper funds; report payroll remittances paid, but not recorded on the Township's accounting records; reduction of interest revenue for interest earned on the certificates of deposit that were recorded twice and; to record interest earned in July that was not recorded on the Township's accounting records; to reduce miscellaneous revenue in the general fund to remove the certificate of deposit posted as a receipt when it matured instead of as a "transfer" between cash and investment balances in the cash journal; and to record the first and second half homestead and rollback distributions in the proper fund.

The failure to correctly record financial activity not only impacted the user's understanding of the financial operations, it also inhibited the Township Board and management's ability to make sound financial decisions, and may impact the Township's ability to comply with the budgetary laws. The accompanying financial statements have been adjusted to correctly reflect all financial activity.

The Township Fiscal Officer should review the Ohio Township Manual, the UAN Manual, and Auditor of State Audit Bulletins for guidance in the recording of revenues and expenditures. The Township's Fiscal Officer and Audit Committee should also perform a periodic review of the financial records to help identify recording errors.

FINDING NUMBER 2006-004

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 5705.09(F) requires that each subdivision should establish a special fund for each class of revenues derived from a source other than the general property tax, which the law required to be used for a particular purpose. **Auditor of State Bulletin 98-013** outlined the procedures for the treatment of money received from the Federal Emergency Management Agency (FEMA). During 2005, the Township failed to establish a separate fund to account for a FEMA grant in the amount of \$65,432.

The Township should utilize the Ohio Township Manual, the UAN Manual, and the Ohio Compliance Supplement as guidance in establishing funds. The Township Fiscal Officer and the Audit Committee should periodically review the accounting records to help assure the establishment of all required funds.

FINDING NUMBER 2006-005

Material Weakness/Noncompliance Citation

Ohio Rev. Code Section 5705.10 (D) requires 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 2006 and 2005, 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.

The accompanying financial statements have been adjusted to reflect these revenues in the correct funds. These adjustments had the following net effect upon the respective fund balances:

	General Fund	Cemetery Fund	Road and Bridge Fund	Roundhead Fire Levy Fund	Richland Fire Levy Fund	McGuffey Fire Levy Fund
2006	(\$3,957)	\$1,157	\$154	\$1,122	\$598	\$927
2005	(\$3,841)	\$1,117	\$149	\$1,064	\$560	\$952

The Township should utilize the property tax settlement sheets from the county auditor to allocate homestead and rollback receipts from the State of Ohio. The difference between the amount of homestead and rollback receipts presented on the tax settlement sheets and the amount received from the State of Ohio should be reported as fees in the same manner as county auditor and treasurer fees. The Township Fiscal Officer and Audit Committee should periodically review the accounting records to verify that homestead and rollback receipts have properly allocated to each fund.

OFFICIALS'S RESPONSE

We did not receive a response from Officials to these findings.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Ohio Rev. Code Section 5705.10 – Homestead and Rollback was not distributed properly	No	Repeated as finding 2006-005
2004-002	26 U.S.C. Section 3102 (a) – Medicare taxes were withheld from employees' paychecks but not remitted.	Yes	
2004-003	26 U.S.C. Section 3403 – Federal taxes were withheld from employees' paychecks but not remitted.	Yes	
2004-04	Accuracy and Timeliness of Bank to Book Reconciliations	No	Repeated as finding 2006-002



Mary Taylor, CPA
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
FEBRUARY 7, 2008**