



**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2007 & 2006**



**Mary Taylor, CPA**  
Auditor of State



MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY

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# Mary Taylor, CPA

Auditor of State

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

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.

A handwritten signature in cursive script that reads "Mary Taylor".

**Mary Taylor, CPA**  
Auditor of State

September 11, 2008

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying financial statements of Middlefield Township, Geauga County, Ohio (the Township) as of and for the years ended December 31, 2007 and December 31, 2006. 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, 2007 and December 31, 2006 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, 2007 and December 31, 2006, 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 Middlefield Township, Geauga County, as of December 31, 2007 and December 31, 2006, 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 September 11, 2008, 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

September 11, 2008



**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND  
CASH BALANCES**

**GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund Types		Totals
	General	Special Revenue	(Memorandum Only)
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$85,904	\$271,367	\$357,271
Charges for Services	30,533	0	30,533
Intergovernmental	123,973	164,995	288,968
Earnings on Investments	4,565	0	4,565
Miscellaneous	6,917	6,815	13,732
<b>Total Cash Receipts</b>	<b>251,892</b>	<b>443,177</b>	<b>695,069</b>
<b>Cash Disbursements:</b>			
Current:			
General Government	164,019	41,841	205,860
Public Safety	4,235	0	4,235
Public Works	0	381,897	381,897
Other	71,566	0	71,566
Debt Service:			
Redemption of Principal	0	17,269	17,269
Interest and Other Fiscal Charges	0	5,943	5,943
<b>Total Cash Disbursements</b>	<b>239,820</b>	<b>446,950</b>	<b>686,770</b>
Total Receipts Over/(Under) Disbursements	12,072	(3,773)	8,299
Fund Cash Balance, January 1, 2007	72,667	291,637	364,304
<b>Fund Cash Balance, December 31, 2007</b>	<b>\$84,739</b>	<b>\$287,864</b>	<b>\$372,603</b>
Reserve for Encumbrances, December 31, 2007	\$0	\$34	\$34

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

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH  
BALANCES**

**GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>(Memorandum Only)</u>
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$88,938	\$284,797	\$0	\$373,735
Charges for Services	20,400	0	0	20,400
Intergovernmental	110,418	173,306	208,177	491,901
Earnings on Investments	5,037	0	0	5,037
Miscellaneous	13,886	36,912	0	50,798
	<u>238,679</u>	<u>495,015</u>	<u>208,177</u>	<u>941,871</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
General Government	107,119	31,038	0	138,157
Public Works	11,753	324,286	0	336,039
Other	64,706	0	0	64,706
Capital Outlay	0	27,492	208,177	235,669
Debt Service:				0
Redemption of Principal	67,272	10,241	0	77,513
Interest and Other Fiscal Charges	2,501	1,365	0	3,866
	<u>253,351</u>	<u>394,422</u>	<u>208,177</u>	<u>855,950</u>
<b>Total Cash Disbursements</b>				
Total Receipts Over/(Under) Disbursements	<u>(14,672)</u>	<u>100,593</u>	<u>0</u>	<u>85,921</u>
Fund Cash Balance, January 1, 2006	<u>87,339</u>	<u>191,044</u>	<u>0</u>	<u>278,383</u>
<b>Fund Cash Balance, December 31, 2006</b>	<u>\$72,667</u>	<u>\$291,637</u>	<u>\$0</u>	<u>\$364,304</u>
Reserve for Encumbrances, December 31, 2006	<u>\$1,434</u>	<u>\$3,044</u>	<u>\$0</u>	<u>\$4,478</u>

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

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

**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 Middlefield Township, Geauga County, Ohio (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 the East Geauga Fire District to provide fire protection services and with Community Care Ambulance to provide ambulance services in conjunction with Middlefield Village. The Township's Police Protection services are provided by the Geauga County Sheriff.

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 had no investments as of December 31, 2007 and December 31, 2006. Funds are held in a business checking account and two business savings accounts.

**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 that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

Gasoline Tax Fund - This fund receives gasoline tax money for constructing, maintaining, and repairing Township roads.

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds (Continued)**

Ambulance Levy Fund - This fund receives property tax money which is used to provide ambulance protection to Township residents.

**3. Capital Projects Fund**

Issue 2 Fund - This fund receives Issue 2 monies from the Ohio Public Works Commission for Issue 2 road projects.

**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 2007 and 2006 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.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006  
(Continued)**

**2. Equity in Pooled Cash and Investments**

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

	2007	2006
Demand deposits	\$372,603	\$364,304
Total deposits	\$372,603	\$364,304

**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, 2007 and December 31, 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$210,319	\$251,892	\$41,573
Special Revenue	395,635	443,177	47,542
Total	\$605,954	\$695,069	\$89,115

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$286,494	\$239,820	\$46,674
Special Revenue	683,766	446,984	236,782
Total	\$970,260	\$686,804	\$283,456

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$213,938	\$238,679	\$24,741
Special Revenue	400,394	495,015	94,621
Capital Projects	108,177	208,177	100,000
Total	\$722,509	\$941,871	\$219,362

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$257,132	\$254,785	\$2,347
Special Revenue	549,357	397,466	151,891
Capital Projects	108,177	208,177	(100,000)
Total	\$914,666	\$860,428	\$54,238

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006  
(Continued)**

**3. Budgetary Activity (Continued)**

Contrary to Ohio Revised Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority in the Capital Projects Fund, Capital Outlay Expenditures line item by \$100,000 for the year ended December 31, 2006.

**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 tax is being phased out by reducing the assessment rate on the property each year. House Bill 66 replaces the revenue lost by the Township due to the phasing out of the tax. In calendar years 2006-2010, the Township will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

**5. Debt**

Debt outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Capital Lease	<u>\$111,075</u>	4.79%

Final payment on the Township's Commercial Loan, which was issued in anticipation of the collection of special assessments levied against the respective property owners, was made during 2006. The final payment consisted of \$67,272 in principal and \$2,501 in interest.

The Capital Lease was issued in 2006 for various vehicles and equipment in the amount of \$138,586. The capital lease will be paid over 7 years in semiannual installments of \$11,606, including principal and interest.

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006  
(Continued)**

**5. Debt (Continued)**

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

Year ending December 31:	<u>Capital Lease</u>
2008	\$23,212
2009	23,212
2010	23,212
2011	23,212
2012	23,212
2013	11,606
Total	<u><u>\$127,666</u></u>

**6. 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 this plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5% and 9% respectively of their gross salaries. The Township contributed an amount equaling 13.85% and 13.7% of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

**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 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.

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. 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.

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006  
(Continued)**

**7. Risk Management (Continued)**

If losses exhaust PEP'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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

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. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 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 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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.

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, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets	\$43,210,703	\$42,042,275
Liabilities	<u>(13,357,837)</u>	<u>(12,120,661)</u>
Net Assets	<u>\$29,852,866</u>	<u>\$29,921,614</u>

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, 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 \$6,700. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.



**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006  
(Continued)**

**7. Risk Management (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.

<b><u>Contributions to OTARMA</u></b>	
2005	\$7,211
2006	\$7,139
2007	\$7,200

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they provide 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.

**8. Related Party Transactions**

The Township purchases supplies from North Coast Sales, which is owned by James Toth, the Fiscal Officer's husband. All disbursements are approved by the Trustees. In 2007 and 2006, the Township paid \$102 and \$650, respectively, to North Coast Sales.

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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*

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

To the Board of Trustees:

We have audited the financial statements of Middlefield Township, Geauga County, Ohio (the Township) as of and for the years ended December 31, 2007 and December 31, 2006, and have issued our report thereon dated September 11, 2008, 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 as a basis for designing our audit procedures for expressing our opinions 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: 2007-002 and 2007-003.

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 and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of these significant deficiencies described above, we believe finding 2007-002 is also a material weakness.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated September 11, 2008.

### **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 are described in the accompanying schedule of findings as items 2007-001 through 2007-003.

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 September 11, 2008.

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

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



**Mary Taylor, CPA**  
Auditor of State

September 11, 2008

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006**

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

**FINDING NUMBER 2007-001**

**Material Noncompliance**

**Proper Bidding Procedures**

Ohio Revised Code Section 5575.01 (A) states that in the maintenance and repair of roads, the board of township trustees may proceed either by contract or force account. When the board proceeds by contract, the contract shall, if the amount involved exceeds forty-five thousand dollars, be let by the board to the lowest responsible bidder after advertisement for bids once, not later than two weeks, prior to the date fixed for the letting of the contract, in a newspaper published in the county and of general circulation within the township or, if no newspaper is published in the county, in a newspaper having general circulation in the township. If the amount involved is forty-five thousand dollars or less, a contract may be let without competitive bidding, or the work may be done by force account. Such a contract shall be performed under the supervision of a member of the board or the township road superintendent.

During 2007, the Township paid Russell Standard Corporation \$124,260 for the maintenance and repair of Township roads without following competitive bidding procedures.

Failure to award a contract through competitive bidding could result in the Township paying a vendor more than is necessary.

We recommend the Township award all contracts through competitive bidding or force account, if applicable, for all items that are expected to exceed the thresholds outlined in Ohio Revised Code Section 5575.01(A).

**Officials' Response**

The Township is aware of the bidding requirements mandated for Local Governments and thought the current project assignment and material quotation practices were meeting the required needs. The Township assigned and worked on several different projects that consisted of several different sections of identified roads. In the future, the Township Fiscal Officer and Trustees will closely monitor the projects identified for improvement to ensure proper bidding procedures.

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**(Continued)**

**FINDING NUMBER 2007-002**

**Noncompliance, Significant Deficiency, and Material Weakness**

**Proper Budgeting and Accounting for OPWC Monies**

Ohio Revised Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code Section 5705.36(A)(3) requires obtaining an increased amended certificate from the budget commission if the legislative authority intends to appropriate and expend excess revenue. Ohio Revised Code Section 5705.40 provides that any appropriation measure may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. However, no appropriation for any purpose may be reduced below an amount sufficient to cover all unliquidated and outstanding contracts or obligations certified from or against the appropriation. Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

Auditor of State Bulletin 2002-004 states that all local governments participating in Issue 2 Funds (single or multi-project grant) must, for each project awarded, establish a capital projects fund to account for both the Issue 2 monies and local matching funds. It is not necessary to obtain authorization from the Auditor of State to establish the fund(s) because the authority exists under Section 5705.09 of the Ohio Revised Code. The purpose of the fund is to account for the related revenues and expenditures to the extent the local government has received benefit from the project. The Ohio Public Works Commission (OPWC) will make payments to the contractor(s) for its share based on invoices submitted by the fiscal officer or to the local government as a reimbursement. For payments made to the contractor, the State will notify the fiscal officer of the amount disbursed. Upon receipt of this notice, each local government shall record a receipt and expenditure in the capital projects fund equal to the amount disbursed by the OPWC.

The Township has not created the required capital projects fund to account for Issue 2 monies and local matching funds in accordance with the above Auditor of State Bulletin. In 2006, payments were made by OPWC directly to the vendor on the Township's behalf. The related receipts and expenditures were not recorded to the Township's books. In accordance with Auditor of State Bulletin 2002-004, both the revenue and expenditure activity of the grant should have been included. Also, the Township did not amend their Certificate of Estimated Resources or their appropriations measure to account for the first payment of OPWC monies in the amount of \$100,000. As a result, budgetary expenditures for capital outlay in the capital projects fund exceeded the appropriations by \$100,000.

The Township's financial statements have been adjusted to properly reflect the receipts and expenditures in a capital projects fund.

We recommend the Township create the appropriate capital projects fund in the accounting system to account for Issue 2 monies and local matching funds. In addition, we recommend the Township follow the budgetary scheme of Chapter 5705 of the Revised Code and monitor appropriations, amending their Certificate of Estimated Resources and appropriations measure upon learning of any expected additional receipts or expenditures.

**Officials' Response**

Failure to budget for the OPWC monies was an oversight. In the future, the Township will budget for all OPWC awards.

MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006  
(Continued)

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

(Continued)

FINDING NUMBER 2007-003

**Noncompliance and Significant Deficiency**

**Encumbrance of Funds**

Ohio Revised Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**1. "Then and Now" certificate** – If the fiscal officer can certify that both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township can authorize the drawing of a warrant for the payment of the amount due. The entity has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

**2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**3. Super Blanket Certificate** – The entity may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During our testing, we noted 17 out of 65 expenditures examined (or \$24,086 out of \$222,414 examined) were entered into prior to receiving the fiscal officer's certification, contrary to the above Revised Code Section.

**MIDDLEFIELD TOWNSHIP  
GEAUGA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND DECEMBER 31, 2006  
(Continued)**

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

**(Continued)**

**FINDING NUMBER 2007-003  
(Continued)**

**Noncompliance and Significant Deficiency (Continued)**

**Encumbrance of Funds (Continued)**

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend the fiscal officer utilize the encumbrance method of accounting and certify that funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

**Officials' Response**

Exceptions were the result of human error in processing. The Township's practice is to certify funds prior to entering into purchase commitments, when prior certification is not possible, the Township utilizes the "then and now" certification."





Mary Taylor, CPA  
Auditor of State

**MIDDLEFIELD TOWNSHIP**

**GEAUGA COUNTY**

**CLERK'S CERTIFICATION**

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 16, 2008**