



Dave Yost • Auditor of State

MCDONALD TOWNSHIP
HARDIN COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2014	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types - For the Year Ended December 31, 2013	4
Notes to the Financial Statements	5
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	13
Schedule of Findings and Responses	15
Schedule of Prior Audit Findings.....	18

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts, and disbursements by fund type, and related notes of McDonald Township, Hardin County, (the Township) as of and for the years ended December 31, 2014 and 2013.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these require requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Township does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2014 and 2013, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of McDonald Township, Hardin County as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Township restated its January 1, 2013 balances to correct recording errors.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2016, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

March 9, 2016

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts:			
Property and Other Local Taxes	\$68,375	\$36,084	\$104,459
Licenses, Permits and Fees		5,875	5,875
Intergovernmental	18,039	88,994	107,033
Earnings on Investments	571	526	1,097
Miscellaneous	999	2,700	3,699
Total Cash Receipts	<u>87,984</u>	<u>134,179</u>	<u>222,163</u>
Cash Disbursements:			
Current:			
General Government	49,645	31	49,676
Public Safety		14,490	14,490
Public Works		59,478	59,478
Health	200	15,072	15,272
Conservation-Recreation	6,250		6,250
Capital Outlay	3,117	26,500	29,617
Total Cash Disbursements	<u>59,212</u>	<u>115,571</u>	<u>174,783</u>
Excess of Receipts Over Disbursements	<u>28,772</u>	<u>18,608</u>	<u>47,380</u>
Other Financing Receipts:			
Other Financing Sources	<u>32</u>		<u>32</u>
Net Change in Fund Cash Balances	28,804	18,608	47,412
Fund Cash Balances, January 1	<u>305,454</u>	<u>391,742</u>	<u>697,196</u>
Fund Cash Balances, December 31:			
Restricted		410,350	410,350
Assigned	81,985		81,985
Unassigned (Deficit)	252,273		252,273
Fund Cash Balances, December 31	<u>\$334,258</u>	<u>\$410,350</u>	<u>\$744,608</u>

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

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Special Revenue</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:			
Property and Other Local Taxes	\$67,822	\$32,482	\$100,304
Licenses, Permits and Fees		7,900	7,900
Intergovernmental	83,838	97,773	181,611
Earnings on Investments	905	838	1,743
Miscellaneous	2,486	5,550	8,036
Total Cash Receipts	<u>155,051</u>	<u>144,543</u>	<u>299,594</u>
Cash Disbursements:			
Current:			
General Government	62,441	32	62,473
Public Safety		12,490	12,490
Public Works		67,333	67,333
Health		13,978	13,978
Conservation-Recreation	6,250		6,250
Capital Outlay	551	16,093	16,644
Total Cash Disbursements	<u>69,242</u>	<u>109,926</u>	<u>179,168</u>
Excess of Receipts Over Disbursements	<u>85,809</u>	<u>34,617</u>	<u>120,426</u>
Other Financing Receipts;			
Other Financing Sources	<u>275</u>		<u>275</u>
Net Change in Fund Cash Balances	86,084	34,617	120,701
Fund Cash Balances, January 1 (Restated Note 2)	<u>219,370</u>	<u>357,125</u>	<u>576,495</u>
Fund Cash Balances, December 31:			
Restricted		391,742	391,742
Assigned	73,989		73,989
Unassigned (Deficit)	231,465		231,465
Fund Cash Balances, December 31	<u>\$305,454</u>	<u>\$391,742</u>	<u>\$697,196</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, 2014 AND 2013**

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 McGuffey Volunteer Fire Company to provide fire services.

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

Public Entity Risk Pool:

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

Joint Venture:

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

Jointly Governed Organizations:

Upper Scioto Valley Ambulance District provides emergency medical services within the District.

B.M.R.T. Regional Ambulance District provides emergency medical services within the District.

Hardin County Regional Planning Commission, the Commission provides studies, maps, plans, recommendations, and reports concerning the physical environmental, social, 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 permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Deposits and Investments

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

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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Fund:

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

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) 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. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year.

A summary of 2014 and 2013 budgetary activity appears in Note 4.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Non-spendable

The Township classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. 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.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

2. RESTATEMENT OF OPENING BALANCES

Adjustments were made to the opening balances to correct recording errors. These adjustments had the following impact on the previously reported fund balances:

	General Fund	Special Revenue
December 31, 2012	\$228,110	\$348,451
Adjustments	(\$8,740)	\$8,674
January 1, 2013	\$219,370	\$357,125

3. EQUITY IN POOLED DEPOSITS

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

	2014	2013
Demand deposits	\$728,346	\$680,975
Certificates of deposit	16,262	16,221
Total deposits	\$744,608	\$697,196

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2014 and 2013 follows:

2014 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$73,743	\$88,016	\$14,273
Special Revenue	132,592	134,179	1,587
Total	\$206,335	\$222,195	\$15,860

2014 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$147,732	\$59,212	\$88,520
Special Revenue	242,967	115,571	127,396
Total	\$390,699	\$174,783	\$215,916

2013 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$72,912	\$155,326	\$82,414
Special Revenue	132,306	144,543	12,237
Total	\$205,218	\$299,869	\$94,651

2013 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$138,782	\$69,242	\$69,540
Special Revenue	234,407	109,926	124,481
Total	\$373,189	\$179,168	\$194,021

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

5. 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.

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

6. RETIREMENT SYSTEM

The Township's officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. 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 2014 and 2013, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township has paid all contributions required through December 31, 2014.

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. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. 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 and Property Coverage

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2014, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013
(Continued)**

7. RISK MANAGEMENT (Continued)

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

B. 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, 2013 and 2014:

	2013	2014
Assets	\$34,954,286	\$35,970,263
Liabilities	8,486,363	8,912,432
Net Position	\$26,467,923	\$27,057,831

At December 31, 2013 and 2014, respectively, the liabilities above include approximately \$7.9 and \$8.2 million of estimated incurred claims payable. The assets above also include approximately \$7.4 and \$7.2 million of unpaid claims to be billed to approximately 957 member governments in the future, as of December 31, 2013 and 2014, respectively. These amounts will be included in future contributions from members when the related claims are due for payment.

As of December 31, 2014, the Township's share of these unpaid claims collectible in future years is approximately \$2,000.

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.

Contributions to OTARMA	
2013	2014
\$3,783	\$3,811

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's 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, 2014 AND 2013
(Continued)**

8. JOINT VENTURE

Joint Recreational District – The McDonald-Roundhead Joint Recreational District (JRD) was established during 2001. The JRD is operated by a five member Board consisting of representatives from both McDonald Township and Roundhead Township. The Trustees of each township select the JRD Board, whose members have staggered terms to allow the JRD Board to consist of three members representing McDonald Township in one year and three members representing Roundhead Township the following year. During the initial year, the McDonald Township Trustees appointed three members to the JRD Board (one 3 year term, one 2 year term, and one 1 year term) and two members (one 3 year member and one 2 year term) were appointed by the Roundhead Township Trustees. The two townships budget and fund the McDonald-Roundhead Joint Recreational District in shares proportionate to the tax valuations of each township, in such amounts as the Township Trustees mutually agreed upon. Financial information can be obtained from Helen Lautenschlager, Fiscal Officer, 15494 State Route 235 Belle Center, Ohio 43310.

9. JOINTLY GOVERNED ORGANIZATIONS

The Upper Scioto Valley Ambulance District (the District) is a jointly governed entity governed by a five member Board of Trustees. Each political subdivision within the District appoints one member. Those subdivisions are Marion Township, McDonald Township, Roundhead Township, the Village of Alger, and the Village of McGuffey, in Hardin County. The District provides ambulance services within the District. Financial information can be obtained from Joyce Campbell, Clerk, P.O. Box 83, McGuffey, Ohio 45859.

B.M.R.T. Regional Ambulance District is a jointly governed organization consisting of the Village of Belle Center, McDonald Township, and Richland Township in Logan County, and Taylor-Creek Township in Hardin County. The District is directed by an appointed four-member Board of Trustees. One member is appointed by each political subdivision within the District. The District provides ambulance services within the District. Financial information can be obtained from Donna Canfield, Clerk, 104 West Buckeye Street, Belle Center, Ohio 43310.

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

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

10. SUBSEQUENT EVENT

On August 25, 2015, the Township purchased a building and adjoining land for \$120,000 to house the administration building and for storage of vehicles and equipment. The adjoining land will be used to expand the Township cemetery. The purchase is being financed with debt service payments to be made from the General Fund starting in June 2016.

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Dave Yost • Auditor of State

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

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

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of McDonald Township, Hardin County, (the Township as of and for the years ended December 31, 2014 and 2013, and the related notes to the financial statements and have issued our report thereon dated March 9, 2016 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. We also noted that the Township restated its January 1, 2013 balances.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2014-002 and 2014-003 described in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining 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 2014-002 and 2014-003.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

March 9, 2016

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2014 AND 2013**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2014-001

Material Weakness – Bank to Book Reconciliations and Financial Reporting

Monthly reconciliations between the book balances and bank accounts is a key control that provides a reasonable assurance that all receipts and disbursements have been accurately and completely recorded in the accounting records and processed by the financial institutions. Also procedures and controls should be in place to prevent and detect errors in financial reporting to help ensure that the information provided to the users is complete and accurate.

The December 31, 2014 and 2013 bank to book reconciliations had an unexplained variance of \$40,362 with the book balance being higher than the bank balance. The amount of this variance remained consistent throughout 2014 and 2013. The unexplained variance was primarily due to the overstatement of a certificate of deposit (cd) in the books, not including the balance of this cd in the bank balance on the reconciliations, not recording interest earned on the cd, and the voiding of checks twice in the books.

The following financial reporting errors were identified:

- The January 1, 2013 General and Special Revenue Gas Tax fund balances were overstated by \$11,124 and \$3,607, respectively, when compared to the prior audited balances. After netting these errors with the errors identified above, the January 1, 2013 General and Special Revenue fund balances were restated by (\$8,740) and \$8,674, respectively, when compared to the prior reported balances at December 31, 2012;
- Subsequent year General Fund appropriations in excess of estimated receipts in the amount of \$81,985 at December 31, 2014 and \$73,989 at December 31, 2013, were not classified as assigned fund balance;
- In 2014 and 2013, property tax receipts in the General Fund, and the Special Revenue Cemetery, Fire, and Road and Bridge funds were not always reported at the gross amount along with recording the related auditor and treasurer fees;
- In 2014, the purchase of a truck in the amount of \$26,500, from the Special Revenue Gasoline Tax Fund was recorded as public works instead of capital outlay. In 2013, the purchase of a mower in the amount of \$7,550, from the Special Revenue Gasoline Tax Fund was recorded as public works instead of capital outlay.

Also the notes to the financial statements omitted one jointly governed organization and the estimated receipts and appropriations in the budgetary activity note did not agree to amounts approved by the Trustees.

The lack of procedures and controls over monthly reconciliations and financial reporting contributed to these errors.

The accompanying financial statements, notes to the financial statements and where necessary, the accounting records have been adjusted to correct the errors identified above.

**FINDING NUMBER 2014-001
(Continued)**

Bank to book reconciliations with un-explained variances reduces accountability and increases the risk that irregularities will not be detected timely. Also when the book balance is greater than the bank balance there is the impression that money collected has not been properly deposited by the Township. Financial reporting errors inhibit the users understanding of the activity and balances of the Township.

Bank to book reconciliations should be reviewed for accuracy and completeness. Unexplained reconciling items should be identified and corrected. The financial reporting and note disclosure errors identified above should be reviewed by the Fiscal Officer to help assure that similar errors are not recorded in the accounting records and reported in the financial statements and notes in subsequent years.

The Board of Trustees should periodically review the bank to book reconciliations and accounting records to help identify and correct errors in a timely manner. In addition, the Fiscal Officer should review the Ohio Township Handbook, Auditor of State Bulletins, GASB 54, and other reference materials, which can be found on the Auditor of State Website at <https://ohioauditor.gov/>, for guidance in recording of financial activity.

FINDING NUMBER 2014-002

Noncompliance / Significant Deficiency

Ohio Rev. Code § 505.24(D) requires that township trustees paid by the annual salary method, that compensate from funds other than the General Fund, must certify the percentage of the time spent working on matters that are to be paid from funds other than the General Fund. Furthermore, these certifications should be completed prior to receiving his/her pay for that pay period. The certifications must be done individually, but is not required to be notarized. The certifications are not required to be a time log. Rather, all that is required is a statement detailing the percentage of time that the trustee spent during that pay period providing services related to each fund to be charged.

The Township maintained documentation to support the allocation of wages to Special Revenue Gasoline Tax in 2014 and 2013; however, the Trustees did not prepare the required certifications. In 2015, the Trustees prepared retroactive certifications for each pay period.

The failure to keep current on changes to the Ohio Revised Code contributed to this issue.

To help ensure the legal disbursement of restricted money and to prevent findings for adjustment as the result of not preparing certifications, certifications should be prepared by the Trustees prior to being paid.

FINDING NUMBER 2014-003

Noncompliance / Significant Deficiency

Ohio Rev. Code § 5705.10(C) states that all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made. The following revenues which are generated as the result of special levies were not credited to the correct fund:

**FINDING NUMBER 2014-003
 (Continued)**

<u>Year</u>	<u>Receipt Type</u>	<u>Amount</u>	<u>Fund Recorded in by Township</u>	<u>Correct Fund</u>
2014	Homestead and Rollback	\$2,528	General	Cemetery
2014	Homestead and Rollback	\$2,023	General	McDonald Fire
2014	Homestead and Rollback	\$337	General	Road & Bridge
2013	Homestead and Rollback	\$2,537	General	Cemetery
2013	Homestead and Rollback	\$2,030	General	McDonald Fire
2013	Homestead and Rollback	\$338	General	Road & Bridge

The accounting records and accompanying financial statements have been adjusted to correctly record these receipts.

The lack of controls and procedures over the recording of these receipts contributed to the recording errors.

The failure to record receipts in the correct fund impacts the users understanding of the available resources in each fund, may result in the illegal disbursement of restricted money, may materially misstate the financial statements, and makes it more difficult to detect irregularities.

The Fiscal Officer should utilize the county auditor tax settlement sheets to help assure homestead and rollback receipts are allocated to the correct funds. The Fiscal Officer and Trustees should periodically review the accounting ledgers to help identify recording errors. This will allow for the correction of the errors in a timely manner, reduce the potential for illegal use of funds, and give a more accurate presentation of the activity within each fund and in the financial statements.

OFFICIALS' RESPONSE: We did not receive a response from Officials to the findings reported above.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014 AND 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-001	Significant Deficiency – Accuracy of Bank to Book Reconciliation	No	Repeated as a Material Weakness in Finding 2014-001
2012-002	Material Weakness – Failure to Post Issued Finding for Adjustment from the 2008-2007 audit period which resulted in the material misstatement of the General Fund and Special Revenue Gasoline Tax Fund.	Yes	Documentation was provided to support the allocation of the Trustees' wages to the Gasoline Tax Fund in 2008. As a result the opinion qualification has been removed from the current Independent Auditor's Report.
2012-003	Significant Deficiency – Misclassification of Debt Payments	N/A	The Township did not have debt activity during 2014 and 2013



Dave Yost • Auditor of State

MCDONALD TOWNSHIP

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 12, 2016**