



**Auditor of State
Betty Montgomery**

MCDONALD TOWNSHIP
HARDIN COUNTY

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**Auditor of State
Betty Montgomery**

REPORT OF INDEPENDENT ACCOUNTANTS

McDonald Township
Hardin County
4265 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, 2002 and 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McDonald Township
Hardin County
Report of Independent Accountants
Page 2

This report is intended solely for the information and use of the audit committee, management, the Board and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 6, 2003

**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, 2002**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$29,539	\$25,378	\$54,917
Intergovernmental Receipts	32,470	59,005	91,475
Licenses, Permits, and Fees		4,497	4,497
Earnings on Investments	1,668	626	2,294
Miscellaneous	2,992	2,750	5,742
	<u>66,669</u>	<u>92,256</u>	<u>158,925</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	55,725		55,725
Public Safety		10,379	10,379
Public Works		44,075	44,075
General Health	6,434	18,114	24,548
Capital Outlay	7,864	5,000	12,864
	<u>70,023</u>	<u>77,568</u>	<u>147,591</u>
Total Cash Disbursements			
	<u>70,023</u>	<u>77,568</u>	<u>147,591</u>
Total Receipts Over/(Under) Disbursements	<u>(3,354)</u>	<u>14,688</u>	<u>11,334</u>
Fund Cash Balances, January 1	<u>78,454</u>	<u>64,789</u>	<u>143,243</u>
Fund Cash Balances, December 31	<u>\$75,100</u>	<u>\$79,477</u>	<u>\$154,577</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, 2001**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$29,661	\$25,412	\$55,073
Intergovernmental Receipts	50,374	62,282	112,656
Licenses, Permits, and Fees		5,700	5,700
Earnings on Investments	1,804	980	2,784
Miscellaneous	1,697	2,827	4,524
	<u>83,536</u>	<u>97,201</u>	<u>180,737</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	51,382		51,382
Public Safety		10,405	10,405
Public Works		35,239	35,239
General Health	7,270	15,413	22,683
Capital Outlay	8,990	18,210	27,200
	<u>67,642</u>	<u>79,267</u>	<u>146,909</u>
Total Cash Disbursements	<u>67,642</u>	<u>79,267</u>	<u>146,909</u>
Total Receipts Over/(Under) Disbursements	<u>15,894</u>	<u>17,934</u>	<u>33,828</u>
Fund Cash Balances, January 1	<u>62,560</u>	<u>46,855</u>	<u>109,415</u>
Fund Cash Balances, December 31	<u>\$78,454</u>	<u>\$64,789</u>	<u>\$143,243</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, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

McDonald Township, Hardin County, (the "Township"), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services, including road maintenance and cemetery maintenance. The Township contracts with Roundhead Township, Richland Township, and the McGuffey Volunteer Fire Company for fire protection and medical services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit are valued at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

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

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	<u>2002</u>	<u>2001</u>
Demand deposits	\$111,245	\$125,993
Certificates of Deposit	<u>43,332</u>	<u>17,250</u>
Total deposits	<u>154,577</u>	<u>143,243</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$57,215	\$66,671	\$9,456
Special Revenue	94,828	92,256	(2,572)
Total	\$152,043	\$158,927	\$6,884

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$128,809	\$70,023	\$58,786
Special Revenue	131,055	77,568	53,487
Total	\$259,864	\$147,591	\$112,273

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$60,929	\$83,511	\$22,582
Special Revenue	92,230	97,199	4,969
Total	\$153,159	\$180,710	\$27,551

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$88,100	\$67,642	\$20,458
Special Revenue	111,200	79,267	31,933
Total	\$199,300	\$146,909	\$52,391

4. PROPERTY TAX

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

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. PROPERTY TAX (Continued)

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 Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer pension plan. This plan provides retirement benefits, including post-retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries during the period from January 1, 2001 through December 31, 2002.

6. RISK MANAGEMENT

A. Risk Pool Membership

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

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, which the General Reinsurance Corporation will reinsure.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. RISK MANAGEMENT (Continued)

Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and report the following assets, liabilities and retained earnings at December 31 (the latest information available):

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$23,703,776	\$22,684,383
Liabilities	9,379,003	8,924,977
Retained earnings	<u>\$14,324,773</u>	<u>\$13,759,406</u>
 <u>Property Coverage</u>	 <u>2001</u>	 <u>2000</u>
Assets	\$5,011,131	\$4,156,784
Liabilities	647,667	497,831
Retained earnings	<u>\$4,363,464</u>	<u>\$3,658,953</u>

7. JOINT VENTURE

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

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

McDonald Township
Hardin County
4265 County Road 200
Belle Center, Ohio 43310

To the Board of Trustees:

We have audited the financial statements of McDonald Township, Hardin County, Ohio, (the Township) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated August 6, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated August 6, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above as item 2002-005 is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated August 6, 2003.

This report is intended solely for the information and use of the management, and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 6, 2003

**MCDONALD TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Bank to Book Reconciliations

Reconciliations between the Township's financial records and all deposits and investments should be performed monthly to help assure the accuracy and completeness of financial reporting. The Township's reconciliations were not accurately prepared and were not always completed in a timely manner. The amount presented on the reconciliation for the bank balance included an unidentified adjustment to allow the reconciliation to balance. This unreconciled situation has existed since June 2001. Failure to correctly prepare the monthly reconciliations in a timely manner could result in the material misstatement of the financial statements errors and irregularities going undetected.

The Township should review their financial records to determine the source(s) of the unreconciled 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. Review procedures should then be implemented to help assure that monthly reconciliations are accurate and performed in a timely manner.

MCDONALD TOWNSHIP
HARDIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-40233-001	Bank To Book Reconciliations	No	Repeated as finding 2002-005



**Auditor of State
Betty Montgomery**

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McDONALD TOWNSHIP

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 13, 2004**