

MADISON TOWNSHIP

LAKE COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2010 and 2009

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Board of Trustees
Madison Township
2065 Hubbard Road
Madison, Ohio 44057

We have reviewed the *Report of Independent Accountants* of Madison Township, Lake County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2009 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Madison Township is responsible for compliance with these laws and regulations.

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Dave Yost
Auditor of State

August 15, 2011

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MADISON TOWNSHIP
LAKE COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2010 and 2009

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Madison Township
Lake County
2065 Hubbard Road
Madison Ohio 44057

To the Board of Trustees:

We have audited the accompanying financial statements of Madison Township, Lake County, Ohio (Township) as and for the years ended December 31, 2010 and 2009. 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. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although, we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

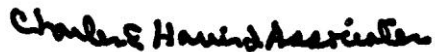
Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2010 and 2009. Instead of the combined funds the accompanying financial statements present for 2010 and 2009, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2010 and 2009. While the Township does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since the Township does not use GAAP to measure its financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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, 2010 and 2009, 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, 2010 and 2009, 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 Madison Township, Lake County as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the years ended December 31, 2010 and 2009. 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 June 15, 2011 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, 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 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.

A handwritten signature in black ink that reads "Charles E. Harris". The signature is written in a cursive style.

Charles E. Harris & Associates, Inc.
June 15, 2011

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2010**

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Receipts:				
Property and Other Local Taxes	\$ 333,623	\$ 2,716,895	\$ -	\$ 3,050,518
Licenses, Permits and Fees	27,373	773	-	28,146
Fines and Forfeitures	16,623	-	-	16,623
Intergovernmental	794,700	824,089	-	1,618,789
Special Assessments	-	133,986	-	133,986
Earnings on Investments	11,501	6,858	-	18,359
Miscellaneous	253,190	76,511	-	329,701
Total Receipts	1,437,010	3,759,112	-	5,196,122
Disbursements:				
General Government	803,615	-	-	803,615
Public Safety	57,487	2,140,005	-	2,197,492
Public Works	-	1,075,176	-	1,075,176
Health	10,981	10,001	-	20,982
Recreation	235,091	-	-	235,091
Other	-	1,000	-	1,000
Capital Outlay	-	170,798	-	170,798
Debt Service:				
Redemption of Principal	-	85,159	-	85,159
Interest and Other Fiscal Charges	500	12,100	-	12,600
Total Disbursements	1,107,674	3,494,239	-	4,601,913
Receipts Over/(Under) Disbursements	329,336	264,873	-	594,209
Other Financing Sources/(Uses)				
Other Financing Uses	(9)	(4,956)	-	(4,965)
Total Other Financing Sources	(9)	(4,956)	-	(4,965)
Excess Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	329,327	259,917	-	589,244
Fund Balance, January 1, 2010	1,275,866	1,854,489	1,773	3,132,128
Fund Balance, December 31, 2010	\$ 1,605,193	\$ 2,114,406	\$ 1,773	\$ 3,721,372

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

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN
FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2009**

	<u>Governmental Fund Types</u>			<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Receipts:				
Property and Other Local Taxes	\$ 361,060	\$ 2,842,773	\$ -	\$ 3,203,833
Licenses, Permits and Fees	28,859	709	-	29,568
Fines and Forfeitures	22,270	-	-	22,270
Intergovernmental	763,380	787,662	-	1,551,042
Special Assessments	-	156,962	-	156,962
Earnings on Investments	53,362	5,170	-	58,532
Miscellaneous	250,531	101,406	-	351,937
Total Receipts	1,479,462	3,894,682	-	5,374,144
Disbursements:				
General Government	826,848	-	-	826,848
Public Safety	33,023	2,262,181	-	2,295,204
Public Works	-	1,491,657	-	1,491,657
Health	12,374	12,792	-	25,166
Recreation	204,175	-	-	204,175
Other	-	1,300	-	1,300
Capital Outlay	-	204,777	-	204,777
Debt Service:				
Redemption of Principal	-	84,339	-	84,339
Interest and Other Fiscal Charges	500	12,000	-	12,500
Total Disbursements	1,076,920	4,069,046	-	5,145,966
Receipts Over/(Under) Disbursements	402,542	(174,364)	-	228,178
Fund Cash Balance, January 1, 2009	873,324	2,028,853	1,773	2,903,950
Fund Balance, December 31, 2009	\$ 1,275,866	\$ 1,854,489	\$ 1,773	\$ 3,132,128
Reserve for Encumbrances, December 31, 2009	\$ 1,264	\$ 7,238	\$ -	\$ 8,502

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

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

Madison Township, Lake County (the Township) is a body corporate and politic established for the purpose of exercising 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 and a publicly-elected Fiscal Officer. The Township provides general government services including road and bridge maintenance, cemetery maintenance, parks, senior center and police protection. Fire protection and emergency medical services are provided by the Township contracts with the Madison Joint Fire District.

The Township's management believes these financial statements included in this report represent all of the funds of the Township over which the Township has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

The Township prepares its financial statements following 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.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. FUND ACCOUNTING

The Township maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity, which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

General Fund: The general operating fund of the Township. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

D. **FUND ACCOUNTING** – (continued)

Special Revenue Funds: These funds are used to account for proceeds from special sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. The Township has 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.
- *Police District Fund* – This fund receives property taxes, fines, intergovernmental receipts and tax revenue to provide police services to the Township residents.

Capital Project Fund: These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Township had the following significant Capital Projects Fund:

- *Permanent Improve Fund* – This fund receives grant and other funds for major capital improvements to township roads and other projects.

E. **BUDGETARY PROCESS**

A budget of estimated cash receipts and disbursements is prepared by the Fiscal Officer, approved by the Township Board of Trustees, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

1. **Estimated Resources**

The county auditor calculates the estimated revenues available to the Township. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Township. The county budget commission approves the certificate of estimated resources.

Prior to December 31, the Township must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of estimated resources stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

E. BUDGETARY PROCESS - (continued)

1. Estimated Resources - (continued)

On or about January 1, the Fiscal Officer sends the county auditor a certificate which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected revenue increases or the Fiscal Officer identifies decreases in revenue.

Budgeted receipts, as shown in Note 5 do not include the unencumbered fund balances as of January 1, 2010 and 2009. However, those fund balances are available for appropriation.

2. Appropriations

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

3. Encumbrances

The Township is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The sum of expenditures and encumbrances may not exceed appropriated totals at any level of budgetary control. The Township's legal level of control is the fund, function and object level.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried over at year-end.

F. PROPERTY, PLANT AND EQUIPMENT

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

G. ACCUMULATED LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	<u>2010</u>	<u>2009</u>
Demand Deposits	\$ 2,709,859	\$ 1,927,449
Certificate of Deposit	<u>1,001,036</u>	<u>954,233</u>
Total Deposits	3,710,895	2,881,682
Investments:		
STAR Ohio	<u>10,477</u>	<u>250,446</u>
Total Investments	<u>10,477</u>	<u>250,446</u>
Total Deposits and Investments	<u>\$ 3,721,372</u>	<u>\$ 3,132,128</u>

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Township, or (3) collateralized by the financial institution's public entity deposit pool.

Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2010 and 2009.

3. PROPERTY TAXES

Property taxes are levied, assessed and collected on a calendar year basis. They include amounts levied against all real, public utility, and tangible personal property located in the Township. Taxes collected on real property (other than public utility) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the Lake County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation for the Township was completed in 2010. The next revaluation is scheduled for 2013.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31. If paid semi-annually, the first payment is usually due December 31, with the remainder payable June 20.

Taxes collected from tangible personal property (other than public utility) received during calendar year 2010 represent the collection of 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property taxes on business inventory, manufacturing and equipment, and furniture and fixtures is no longer levied and collected. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied April 1, 2009 on the values listed as of December 31, 2009. Public utility real and public utility personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Real property is assessed at 35% of market value and personal property is assessed at 100% of market value. Public utility property taxes are payable on the same dates as real property taxes described previously.

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

3. PROPERTY TAXES – (continued)

The Lake County Treasurer collects property taxes on behalf of the Township. The Lake County Auditor remits the collected taxes to the Township. Tax settlements are made each March and August for real property taxes and each June and October for personal property.

4. DEBT

Debt outstanding at December 31, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Capital Assets Financing Program	\$ 335,502	4.50%

The Ohio Capital Asset Financing Program debt was issued in 2007 for the purchase of road construction and service vehicles. The term of the loan was for seven years. The Ohio Capital Asset Financing Program will be paid from the Road and Bridge and Cemetery Funds.

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

<u>Year Ending December 31:</u>	<u>Ohio Capital Asset Financing Program</u>
2011	\$ 94,875
2012	96,475
2013	97,863
2014	99,037
	<u>\$ 388,250</u>

5. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

<u>2010 Budgeted vs Actual Budgetary Basis Expenditures</u>			
<u>Funds</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 1,606,183	\$ 1,107,683	\$ 498,500
Special Revenue	3,924,632	3,499,195	425,437

<u>2009 Budgeted vs Actual Budgetary Basis Expenditures</u>			
<u>Funds</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 1,393,695	\$ 1,078,184	\$ 315,511
Special Revenue	4,575,378	4,076,284	499,094

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

5 BUDGETARY ACTIVITY (continued)

2010 Budgeted vs Actual Receipts			
Funds	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,452,243	\$ 1,437,010	\$ (15,233)
Special Revenue	3,549,642	3,759,112	209,470

2009 Budgeted vs Actual Receipts			
Funds	Budgeted Receipts	Actual Receipts	Variance
General	\$ 1,289,107	\$ 1,479,462	\$ 190,355
Special Revenue	3,724,144	3,894,682	170,538

6. RETIREMENT SYSTEM

Employees of the Township belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a state operated, cost sharing, multiple employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are prescribed by the Ohio Revised Code. Non-police OPERS members contributed 10% of their gross pay while the Township contributed an amount equal to 14% of covered payroll. The Township paid all required contributions through 2010.

For 2009 and 2010, police OPERS members contributed 10.1% and 11.1% of their gross pay while the Township contributed an amount equal to 17.63% and 17.87% of covered payroll, respectively. The Township paid all required contributions through 2010.

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). American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Service Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

7. RISK MANAGEMENT – (continued)

Casualty and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under the arrangement, OTARMA retains insurance risks up to an amount specified in the contracts. At December 31, 2009, OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

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

Financial Position

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Assets	\$ 38,982,088	\$ 40,737,740
Liabilities	(12,880,766)	(12,981,818)
Retained earnings	<u>\$ 26,101,322</u>	<u>\$ 27,755,922</u>

At December 31, 2009 and 2008, respectively, liabilities noted above include approximately \$12 million and \$12.1 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.5 million and \$10.9 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2009 and 2008, 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 \$20,492.

8. RESTATEMENT OF PRIOR YEAR'S FUND BALANCE

Several adjustments resulted in the restatement of the beginning of the year fund balance in the General Fund. Checks issued by the Township in 2008 (the prior period) were subsequently voided in 2009 and the check amounts added back to the beginning balancing. In addition, the Township had erroneously posted several receipts the incorrect funds and correcting entries were made.

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Fund Balance as of December 31, 2008	\$ 868,673	\$ 1,720,443	\$ 13,033
Add: posting Errors	2,976	8,391	(11,260)
Add: Voided Checks	1,675	300,019	-
January 1, 2009 Fund Balance as restated	<u>\$ 873,324</u>	<u>\$ 2,028,853</u>	<u>\$ 1,773</u>

**MADISON TOWNSHIP
LAKE COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2010 and 2009**

9. CONTINGENT LIABILITES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Madison Township
Lake County
2065 Hubbard Road
Madison, Ohio 44057

To the Board of Trustees:

We have audited the financial statements of Madison Township, Lake County Ohio (the Township) as of and for the years ended December 31, 2010 & 2009 and have issued our report thereon dated June 15, 2011, 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 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 Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-002 described in the accompanying schedule of findings to be a material weakness.

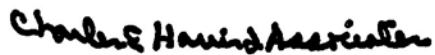
Compliance and Other Matters

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 such an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2010-001.

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 also noted certain matters that we have reported to management of the Township in a separate letter dated June 15, 2011.

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



Charles E. Harris and Associates, Inc.

June 15, 2011

**MADISON TOWNSHIP
LAKE COUNTY**

**SCHEDULE OF FINDINGS
December 31, 2010 and 2009**

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

Finding Number: 2010-001 - Noncompliance

Appropriations Exceed Estimated Resources

Section 5705.39, Revised Code, states that appropriations from each fund shall not exceed the total estimated resources as certified for expenditure by the county budget commission. The following fund was found to have appropriations in excess of the amount available for expenditure.

Fund	<u>2009</u> Total Estimated Resources	Total Appropriations	Variance
<u>Special Revenue Funds:</u>			
Permissive Tax Fund	\$ 285,773	\$ 360,500	\$ (74,727)

Management Response:

The Township will more closely monitor the wording of the resolutions to certify funds when we are applying for OPWC project funding and take corrective actions as needed. The resolution 09-73 that was passed was for expenditures that were going to take place the next year, 2010. No appropriations were made in UAN for that resolution.

Finding Number: 2010 - 002 – Material Weakness

Statement on Auditing Standards 115 – Effects on Annual Financial Report

Statement on Auditing Standards 115 documents that the identification by the auditor of a material misstatement in the financial statements for the period under audit that was not initially identified by the entity's internal control system is a strong indicator of a material weakness even if management subsequently corrects the misstatement.

In 2009, the Township erroneously posted several transactions into the Permanent Improvement Fund that were later reclassified into the General Fund several months after the original entries were made. In addition, audit adjustments proposed during the audit of the Township's financial statements for the years 2006 and 2007 were never posted into the Township's accounting records, which caused variances from the Township's books to the prior audit report. These adjustments were posted to the Township's books during the current audit.

**MADISON TOWNSHIP
LAKE COUNTY**

**SCHEDULE OF FINDINGS – (continued)
December 31, 2010 and 2009**

<p>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</p>

Finding Number: 2010 - 002 – Material Weakness - (continued)

Statement on Auditing Standards 115 – Effects on Annual Financial Report – (continued)

The lack of controls over the posting of financial transactions and financial reporting can result in errors and irregularities that may go undetected and decreases the reliability of financial data throughout the year.

We recommend the Township adopt policies and procedures for controls over recording of financial transactions and over financial reporting to help ensure the information accurately reflects the activity of the Township and thereby increases the reliability of financial data throughout the year.

Management Response:

The Fiscal Officer was not aware of the adjustments proposed in the 2006 and 2007 audit, nor were they mentioned during the 2008 audit performed by the Auditor of State at the request of the Township. Since the Fiscal Officer found the transactions posted incorrectly in the Capital Projects Fund and corrected it, she does not feel the finding regarding timeliness of correction to be fair. The one receipt belonged to a project that was already on the books. There was no impact to the financial statements. The financial statements were correctly stated. I feel it was more important to correct any posting that were not coded to the right accounts. It took some research on several items to discover all the issues that did need to be corrected.

**MADISON TOWNSHIP
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2010 and 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken or Finding No Longer Valid; Explain
2008 - 001	ORC 5705.41(B) Expenditures plus encumbrances exceed appropriations	Yes	Finding no longer valid
2008 - 002	ORC 5705.36 Budgetary amendments not posted to accounting system in a timely manner	Yes	Finding no longer valid
2008 - 003	Posting errors not being detected in a timely manner in accordance with SAS 112	No	Repeated as Finding 2010-002

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Dave Yost • Auditor of State

MADISON TOWNSHIP

LAKE 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
AUGUST 25, 2011**