



Mary Taylor, CPA
Auditor of State

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

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Mary Taylor, CPA
Auditor of State

Salem Township
Tuscarawas County
8276 Stonecreek Road
Newcomerstown, Ohio 43832

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Township to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Mary Taylor, CPA
Auditor of State

August 14, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Salem Township
Tuscarawas County
8276 Stonecreek Road
Newcomerstown, Ohio 43832

To the Board of Trustees:

We have audited the accompanying financial statements of Salem Township, Tuscarawas County, Ohio, (the Township) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Salem Township, Tuscarawas County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

August 14, 2008

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Taxes	\$29,950	\$30,711	\$60,661
Licenses, Permits, and Fees		475	475
Intergovernmental	52,374	106,526	158,900
Earnings on Investments	1,481	1,965	3,446
Miscellaneous	4,321	4,660	8,981
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	88,126	144,337	232,463
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
General Government	82,278		82,278
Public Works		109,069	109,069
Health		10,347	10,347
Capital Outlay		2,091	2,091
Debt Service:			
Redemption of Principal	8,995		8,995
Interest and Other Fiscal Charges	2,771		2,771
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	94,044	121,507	215,551
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(5,918)	22,830	16,912
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	25,358	84,158	109,516
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$19,440</u>	<u>\$106,988</u>	<u>\$126,428</u>

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

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Taxes	\$29,911	\$30,946	\$60,857
Licenses, Permits, and Fees		800	800
Intergovernmental	49,128	107,717	156,845
Earnings on Investments	2,279	2,694	4,973
Miscellaneous	2,974	20,096	23,070
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	84,292	162,253	246,545
Cash Disbursements:			
Current:			
General Government	83,085		83,085
Public Works		145,553	145,553
Health		28,592	28,592
Capital Outlay	59,946		59,946
Debt Service:			
Redemption of Principal	2,143		2,143
Interest and Other Fiscal Charges	799		799
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	145,973	174,145	320,118
Total Cash Receipts Under Cash Disbursements	<hr/>	<hr/>	<hr/>
	(61,681)	(11,892)	(73,573)
Other Financing Receipts:			
Loan Proceeds	50,000		50,000
Excess of Cash Receipts and Other Financing Receipts Under Cash Disbursements	(11,681)	(11,892)	(23,573)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	37,039	96,050	133,089
Fund Cash Balances, December 31	<hr/> \$25,358	<hr/> \$84,158	<hr/> \$109,516

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

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

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

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Salem Township, Tuscarawas County, Ohio, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides general government services including road and bridge maintenance, cemetery maintenance, and other general governmental services including public works and public health services.

The Township participated in public entity risk pools. Note 7 to the financial statements provides additional information for these entities. These organizations are:

Public Entity Risk Pool:

The Township belongs to the Ohio Government Risk Management Plan for property and casualty coverage.

Through November 16, 2006 the Township belonged to the Ohio Township Association Risk Management Authority for property and casualty coverage.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash

All cash is maintained in an interest-bearing checking account.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

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

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

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 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. The Township did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

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

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

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

2. Equity in Pooled Cash

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

	2007	2006
Demand deposits	\$126,428	\$109,516

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Township.

3. Budgetary Activity

Budgetary activity for the years ended December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$116,059	\$88,126	(\$27,933)
Special Revenue	110,834	144,337	33,503
Total	\$226,893	\$232,463	\$5,570

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$153,417	\$94,044	\$59,373
Special Revenue	182,993	121,507	61,486
Total	\$336,410	\$215,551	\$120,859

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$112,679	\$134,292	\$21,613
Special Revenue	104,264	162,253	57,989
Total	\$216,943	\$296,545	\$79,602

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$149,768	\$145,973	\$3,795
Special Revenue	200,314	174,145	26,169
Total	\$350,082	\$320,118	\$29,964

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

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

3. Budgetary Activity (Continued)

Contrary to Ohio law, the Township did not certify the availability of appropriations and funds for all expenditures.

4. Property Tax

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

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. Debt

Debt outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Bank Loan	<u>\$38,862</u>	6.50%

The Township received a bank loan to finance the purchase of a new dump truck for Township road and cemetery maintenance. The Township's taxing authority collateralized the loan.

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

Year ending December 31:	<u>Bank Loan</u>
2008	\$11,766
2009	11,766
2010	11,766
2011	9,805
Total	<u>\$45,103</u>

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

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

6. Retirement System

The Township belongs to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5 percent and 9.0 percent, respectively, of their gross salaries and the Township contributed an amount equaling 13.85 percent and 13.7 percent, respectively, of participants' gross salaries. The Township has paid all participating employees' required contributions through December 31, 2007.

7. Risk Pool Membership

A. Ohio Government Risk Management Plan

From November 17, 2006 through December 31, 2007, the Township belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except the Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	<u>2007</u>	<u>2006</u>
Assets	\$11,136,455	\$9,620,148
Liabilities	<u>(4,273,553)</u>	<u>(3,329,620)</u>
Members' Equity	<u>\$6,862,902</u>	<u>\$6,290,528</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

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

7. Risk Pool Membership (Continued)

B. Ohio Township Risk Management Authority

From January 1, 2006 through November 16, 2006, the Township belonged to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006, OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

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

Property Coverage

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

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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

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

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

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

7. Risk Pool Membership (Continued)

B. Ohio Township Risk Management Authority (Continued)

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006:

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

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$3,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

Contributions to OTARMA

2005	\$5,569
2006	\$3,562

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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Mary Taylor, CPA

Auditor of State

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

Salem Township
Tuscarawas County
8276 Stonecreek Road
Newcomerstown, Ohio 43832

To the Board of Trustees:

We have audited the financial statements of Salem Township, Tuscarawas County, Ohio, (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 14, 2008 wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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

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We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above is also a material weakness.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated August 14, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated August 14, 2008.

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

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



Mary Taylor, CPA
Auditor of State

August 14, 2008

**SALEM TOWNSHIP
TUSCARAWAS COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Material Weakness

Our receipt and expenditure testing revealed the Township recorded several transactions incorrectly. Mispostings identified included, but were not limited, to the following:

- In 2007 and 2006, \$1,696 and \$335, respectively, of intergovernmental receipts were posted as tax receipts in the General Fund and \$1,609 and \$789, respectively, of intergovernmental receipts were posted as tax receipts in the Special Revenue Funds. In addition, in 2007, \$481 of Road and Bridge and Cemetery Special Revenue Funds' intergovernmental revenue was posted as taxes in the General Fund. The 2007 amounts were adjusted to the financial statements; the 2006 amounts were reported to management as unadjusted items.
- In 2007 and 2006, \$433 and \$1,096, respectively, of intergovernmental and tax receipts were posted as miscellaneous receipts in the General Fund and \$3,524 and \$516, respectively, of intergovernmental and tax receipts were posted as miscellaneous receipts in the Special Revenue Funds. In addition, in 2007, a \$12,000 miscellaneous receipt was posted to the General Fund rather than a Special Revenue Fund. The \$3,524 and \$12,000 amounts were adjusted to the financial statements; the remaining amounts were reported to management as unadjusted items.
- In 2006, a \$2,465 gasoline tax receipt was misposted between two Special Revenue Funds. In addition, \$588 of homestead and rollback intergovernmental revenue was not allocated correctly between two Special Revenue Funds. These amounts were adjusted to the financial statements.
- In 2007 and 2006, miscellaneous receipts deposited to the bank were not recorded in the Township ledgers from 2 to 26 days after deposit.
- In 2006, the Board approved a \$50,000 loan to purchase a new dump truck. The Township paid the vendor \$49,846 for the dump truck, and the remaining \$154 was posted to miscellaneous receipts in the General Fund. However, the \$49,846 was not reflected in the Township's ledgers as loan proceeds or capital outlay expenditures. Adjustments were made to the financial statements to record loan proceeds of \$50,000 and the dump truck expenditure of \$49,846.
- In 2007 and 2006, debt principal and interest payments of \$8,995 and \$2,771, and \$2,143 and \$799, respectively, were posted as capital outlay expenditures in the General Fund. These amounts were reclassified in the financial statements.

FINDING NUMBER 2007-001 (Continued)

The Township should exercise due care when posting transactions to help ensure receipts and expenditures are posted to the correct fund and account. In addition, the Township should ensure all financial activity is properly reflected in the Township's ledgers. Finally, the Township should ensure all receipts are posted to the ledgers timely. The Township should refer to the Ohio Township Handbook for guidance in properly classifying receipts and disbursements. The Board should review cash reconciliations, budget-to-actual reports and receipt and expenditure activity reports monthly to help ensure transactions are properly recorded. This will help more accurately reflect the Township's financial activity and will help ensure more accurate financial reporting.

Officials' Response: The Fiscal Officer will pay closer attention in posting of transactions to the correct fund and will post transactions in a timely manner.

FINDING NUMBER 2007-002

Noncompliance

Ohio Rev. Code Section 5705.41(D) provides no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision stating the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

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

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

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

FINDING NUMBER 2007-002 (Continued)

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

14 of the 67 (20.9 percent) expenditures tested were not certified by the fiscal officer prior to the purchase commitment being made. Of these items, 10 had “then and now” certificates, however, they exceeded \$3,000 and there was no Board resolution to approve the payment. It was also found none of the other exceptions above were utilized for the items found to be in non-compliance. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balance. In addition, we noted the Board did not establish an amount by which blanket purchase orders may be written for, against any specific line item account over a period not running beyond the end of the current fiscal year. Finally, we noted 82% of the expenditures tested had then and now certificates for purchase orders. The Fiscal Officer should try to issue purchase orders before entering into the purchase commitment and only use then and now certificates when necessary.

Unless the exceptions noted above are used, prior certification is not only required by statute, but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve control over disbursements and to help reduce the possibility of the Township’s funds exceeding budgetary spending limitations, the fiscal officer should certify the funds are or will be available prior to obligation by the Township. When prior certification is not possible, “then and now” certification should be used.

The Township should certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The Township should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation. The Board should also establish an amount for which its blanket certificates may be written. Finally, when “then and now” certificates are necessary, the Board should approve any then and now certificate exceeding \$3,000.

Officials’ Response: The Fiscal Officer will attempt to change the way the “now and then” certificates are used and request Board approval before using Blanket Certificates.

Board signs all certificates and still thinks a little closer accounting is made of expenditures when purchases are approved with then and now certificates on a individual basis.



Mary Taylor, CPA
Auditor of State

SALEM TOWNSHIP

TUSCARAWAS 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
SEPTEMBER 30, 2008**