

**SALEM TOWNSHIP
MONROE COUNTY
Regular Audit
December 31, 2007 and 2006**



Mary Taylor, CPA

Auditor of State

Board of Trustees
Salem Township
44800 Higgins Road
Clarington, Ohio 43915

We have reviewed the *Independent Accountants' Report* of Salem Township, Monroe County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2006 through December 31, 2007. 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 *Independent Accountants' Report* 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 *Independent Accountants' Report* 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. Salem Township is responsible for compliance with these laws and regulations.

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

Mary Taylor, CPA
Auditor of State

June 24, 2008

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**SALEM TOWNSHIP
MONROE COUNTY**

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Perry & Associates
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INDEPENDENT ACCOUNTANTS' REPORT

May 23, 2008

Salem Township,
Monroe County
44800 Higgins Rd
Clarington, OH 43915

To the Board of Trustees:

We have audited the accompanying financial statements of **Salem Township, Monroe 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. 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. 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 their changes in financial position for the year 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, Monroe County, 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 aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the years ended December 31, 2007 and 2006. 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 May 23, 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.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

**SALEM TOWNSHIP
MONROE 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:			
Local Taxes	\$ 10,847	\$ 12,280	\$ 23,127
Intergovernmental	8,716	90,174	98,890
Earnings on Investments	9	34	43
Miscellaneous	203	-	203
	<u>19,775</u>	<u>102,488</u>	<u>122,263</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	19,439	3,238	22,677
Public Safety	1,519	-	1,519
Public Works	-	84,155	84,155
Debt Service:			
Redemption of Principal	-	10,062	10,062
Interest and Fiscal Charges	-	2,988	2,988
	<u>20,958</u>	<u>100,443</u>	<u>121,401</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(1,183)</u>	<u>2,045</u>	<u>862</u>
Fund Cash Balances, January 1	<u>(3,814)</u>	<u>15,704</u>	<u>11,890</u>
Fund Cash Balances, December 31	<u>\$ (4,997)</u>	<u>\$ 17,749</u>	<u>\$ 12,752</u>

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

**SALEM TOWNSHIP
MONROE 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:			
Local Taxes	\$ 15,508	\$ 11,046	\$ 26,554
Intergovernmental	4,354	225,047	229,401
Earnings on Investments	16	130	146
Miscellaneous	410	-	410
	<u>20,288</u>	<u>236,223</u>	<u>256,511</u>
Total Cash Receipts			
	<u>20,288</u>	<u>236,223</u>	<u>256,511</u>
Cash Disbursements:			
Current:			
General Government	27,851	231	28,082
Public Safety	1,200	-	1,200
Public Works	-	222,430	222,430
Debt Service:			
Redemption of Principal	-	18,731	18,731
Interest and Fiscal Charges	-	862	862
Capital Outlay	-	37,835	37,835
	<u>29,051</u>	<u>280,089</u>	<u>309,140</u>
Total Cash Disbursements			
	<u>29,051</u>	<u>280,089</u>	<u>309,140</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(8,763)</u>	<u>(43,866)</u>	<u>(52,629)</u>
Other Financing Receipts/(Disbursements):			
Note Proceeds	-	48,820	48,820
Transfers-In	1,318	41,463	42,781
Transfers-Out	-	(42,781)	(42,781)
	<u>1,318</u>	<u>47,502</u>	<u>48,820</u>
Total Other Financing Receipts/(Disbursements)			
	<u>1,318</u>	<u>47,502</u>	<u>48,820</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(7,445)</u>	<u>3,636</u>	<u>(3,809)</u>
Fund Cash Balances, January 1	<u>3,631</u>	<u>12,068</u>	<u>15,699</u>
Fund Cash Balances, December 31	<u><u>\$ (3,814)</u></u>	<u><u>\$ 15,704</u></u>	<u><u>\$ 11,890</u></u>

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

**SALEM TOWNSHIP
MONROE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Salem Township, Monroe 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. A publicly elected three-member Board of Trustees and a publicly elected Fiscal officer direct the Township. The Township provides general governmental services, including road and bridge maintenance, fire protection and emergency medical services. The Township contracts with the Clarington Volunteer Fire Department to provide fire protection 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

The Township Fiscal Officer invests all available funds of the Township in an interest-bearing checking account.

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.

**SALEM TOWNSHIP
MONROE 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 are used to account for proceeds from specific sources that are restricted to expenditure for specific purposes. The Township has the following significant Special Revenue Funds:

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

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

Miscellaneous Fund - This fund receives FEMA monies to pay for flood damages.

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, and object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year-end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 re-appropriated in the subsequent year. The Township did not encumber all commitments as required by law.

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

**SALEM TOWNSHIP
MONROE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

	2007	2006
Demand deposits	\$ 12,752	\$ 11,890

Deposits are insured by the Federal Deposit Insurance Corporation.

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	\$ 36,002	\$ 19,775	\$ (16,227)
Special Revenue	131,406	102,488	(28,918)
Total	\$ 167,408	\$ 122,263	\$ (45,145)

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 36,690	\$ 20,958	\$ 15,732
Special Revenue	136,161	100,443	35,718
Total	\$ 172,851	\$ 121,401	\$ 51,450

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 18,072	\$ 21,606	\$ 3,534
Special Revenue	85,981	326,506	240,525
Total	\$ 104,053	\$ 348,112	\$ 244,059

**SALEM TOWNSHIP
MONROE COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 21,000	\$ 29,051	\$ (8,051)
Special Revenue	99,000	322,870	(223,870)
Total	\$ 120,000	\$ 351,921	\$ (231,921)

Contrary to Ohio Rev. Code Section 5705.41 (D), the certification of availability of unencumbered appropriations for expenditure was not obtained for any expenditure during the audit period.

Contrary to Ohio Rev. Code Section 5705.41 (B), actual disbursements exceeded appropriations in the Gasoline Tax Fund in 2007 and all funds in 2006.

Contrary to Ohio Rev. Code Section 5705.39, appropriations exceeded estimated resources during the audit period.

Contrary to Ohio Rev. Code Section 5705.36, during 2007 and 2006, the Township did not obtain a reduced or increased amended certificate for several funds when the actual receipts were greater or less than the budgeted receipts.

Contrary to Ohio rev. Code Section 5705.10, the General Fund and Motor Vehicle License Fund incurred negative fund balances during the audit period.

4. DEBT

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
General Obligation Note - Tractor	\$ 41,714	5.40%
General Obligation Note - Township Hall	5,444	4.70%
Total	\$ 47,158	

The Township issued a general obligation note in 2005 for \$12,000 for the purchase of a Township Hall. This note is backed by the full faith and Credit of the Township.

The Township issued a general obligation note in 2005 for \$17,254 for the purchase of a mower. This was paid in full during the audit period.

The Township issued a general obligation note in 2006 for \$48,820 for the purchase of a tractor and the payoff of the mower. This note is backed by the full faith and Credit of the Township.

**SALEM TOWNSHIP
MONROE COUNTY**

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

4. DEBT (Continued)

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

Year Ending December 31:	Tractor	Township Hall	Total
2008	\$9,741	\$3,308	\$13,049
2009	\$9,741	\$2,481	\$12,222
2010	\$9,741		\$9,741
2011	\$9,741		\$9,741
2012	\$9,741		\$9,741
Total	\$48,705	\$5,789	\$54,494

5. 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.

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.

6. RETIREMENT SYSTEMS

The Township's elected officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multi-employer 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. For 2007 and 2006, members of PERS contributed 9.5% (2007) and 9% (2006) of their gross salaries. The Township contributed an amount equal to 13.85% (2007) and 13.7% (2006) of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

**SALEM TOWNSHIP
MONROE COUNTY**

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

7. RISK MANAGEMENT

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

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, including loss adjustment expenses. 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. Townships can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA'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 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

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. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. It provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop-loss is reached by payment of SALEM TOWNSHIP losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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 township.

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

**SALEM TOWNSHIP
MONROE COUNTY**

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

7. RISK MANAGEMENT (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, 2006 and 2005 (the latest information available)

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member townships in the future, as of December 31, 2006 and 2005, respectively.

8. TRANSFERS

The transfer reflected in the Special Revenue Funds were from the FEMA Fund to the General Fund, Motor Vehicle License Fund, Gasoline Tax Fund and Road and Bridge Fund to reimburse these funds for expenses incurred before the FEMA money was received.

Perry & Associates
Certified Public Accountants, A.C.

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

May 23, 2008

Salem Township,
Monroe County
44800 Higgins Rd
Clarington, OH 43915

To the Board of Trustees:

We have audited the financial statements of **Salem Township, Monroe County, Ohio** (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated May 23, 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

Our consideration of the 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 considered significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

Internal Control Over Financial Reporting (Continued)

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 through 2005-008.

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. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

In a separate letter to the Township's management dated May 23, 2008 we reported other matters related to internal control we deemed immaterial.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2007-001 through 2007-006.

In a separate letter to the Township's management dated May 23, 2008 we reported other instances of noncompliance we deemed immaterial.

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

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

**SALEM TOWNSHIP
MONROE COUNTY**

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

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

Significant Deficiency/Noncompliance Citation

Ohio Admin. Code §117-2-02(D)(3) provides that an appropriation ledger, which may assemble and classify disbursements into separate accounts for, at a minimum, each account listed in the appropriation resolution should be used. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

The following conditions were noted:

1. No appropriations ledger. The encumbrance system of accounting was not utilized.
2. No Revenue Ledger. To assemble and classify receipts into separate accounts.

As a result, the Township did not maintain an accounting system and accounting records sufficient to enable the Township to report its transactions and prepare accurate financial statements for 2006 and 2007. Disbursements were made without being appropriated and there was no method established whereby Township management could monitor the types of expenditures being made and the year-to-date expenditures made for any particular expenditure function.

We recommend the Township Clerk maintain an accounting system and accounting records as set forth in Ohio Admin. Code §117-2-02.

Management's Response – We did not receive a response to this finding from management.

FINDING NUMBER 2007-002

Significant Deficiency/Noncompliance Citation

Ohio Rev. Code Section 5705.41 (B) states that no subdivision or taxing unit shall make any expenditure of money unless the same has been properly appropriated.

Actual disbursements exceeded appropriations in 2007 in the Gas Tax Fund and 2006 in all funds.

We recommend the Township Clerk modify appropriations with the Board of Township Trustees and County Budget Commission before incurring obligations that would cause expenditures to exceed appropriations. The Township Clerk should deny any payments until the legislative authority has passed the necessary changes to the appropriation measure.

Management's Response – We did not receive a response to this finding from management.

**SALEM TOWNSHIP
MONROE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-003

Significant Deficiency/Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

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

1. "Then and Now" certificate - If the fiscal officer (Clerk) can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority (Board of Township Trustees) can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.
2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current 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. Effective September 26, 2003, certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
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.

**SALEM TOWNSHIP
MONROE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-003 (Continued)

Ohio Revised Code § 5705.41(D)(1) (Continued)

The Township did not properly certify the availability of funds prior to purchase commitment. Without these certifications, the management of the Township lost budgetary control over expenditures. We found that no purchase orders were assigned. This would make purchases hard to track and difficult to determine the purpose of the expense. In addition, an open purchase order list could not maintained, nor could the status of purchase orders be tracked periodically. The lack of a periodic review of outstanding purchase orders could lead to improper controls over the expenditure process. Also, funds that could be available for expenditure would be encumbered and unavailable, which could impact decision making processes for current and future projects.

We recommend the Clerk create and assign numbers to all the Township's Purchase Orders and they be sequentially numbered. We also recommend an open purchase order listing should be periodically prepared. The decision of the frequency of preparing the listing should be based upon (but is not limited to): Significance of purchase orders issued, frequency and amounts of blanket purchase orders used and/or outstanding, and year-end reporting there was no evidence that the Township followed the aforementioned exceptions.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Clerk certify that the funds are or will be available prior to an obligation being incurred by the Township. When prior certification is not possible, "then and now" certification should be used.

Management's Response – We did not receive a response to this finding from management.

FINDING NUMBER 2007-004

Significant Deficiency/Noncompliance Citation

Ohio Revised Code § 5705.10 provides that money paid into a fund may only be used for the purpose which the fund is established. As, a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

During the audit period several Gasoline Tax, Motor Vehicle License Tax, and Local Government receipts were posted to incorrect funds. This resulted in Fund Balance adjustments resulting in negative fund balances at year end in 2007 in the General Fund in the amount of \$4,997 and the Motor Vehicle License Fund of \$14,702. Also in 2006 in the General Fund in the amount of \$3,814 and the Motor Vehicle License Fund in the amount of \$16,632.

**SALEM TOWNSHIP
MONROE COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-004 (Continued)

We recommend the Township Clerk monitor fund balances to ensure that monies from one fund are not utilized to pay the obligations of another fund. To cover temporary cash flow shortages, the Township may be able to advance money from the other funds. The Township should consult with its legal counsel and review Auditor of State Bulletin 1997-003 to determine if an advance of funds to prevent a deficit cash balance would be appropriate.

Management's Response – The Township has agreed to and posted the adjustments and the adjustments are reflected in the accompanying financial statements.

FINDING NUMBER 2007-005

Significant Deficiency/Noncompliance Citation

Ohio Rev. Code § 5705.39 provides that the total appropriations from each fund shall not exceed the total estimated resources. No appropriation measure shall become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The appropriations exceeded that total estimated resources during 2007 and 2006. Unfavorable variances were noted for the Motor Vehicle License Fund, Gasoline Tax Fund, Road and Bridge Fund and the miscellaneous Special Revenue Fund for 2006 and the Gasoline Tax Fund for 2007.

The Township should obtain a certificate from the County Auditor stating that the total appropriations do not exceed the total estimated resources whenever an amendment is made to the original appropriation measure.

Management's Response – We did not receive a response to this finding from management.

FINDING NUMBER 2007-006

Significant Deficiency/Noncompliance Citation

Ohio Rev. Code Section 5705.36 allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

During 2007 and 2006, the Township did not obtain a reduced or increased amended certificate for several funds when the actual receipts were greater or less than the budgeted receipts.

**SALEM TOWNSHIP
MONROE COUNTY**

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

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

FINDING NUMBER 2007-006 (Continued)

The Township should perform a comparison of the estimated resources and the actual receipts periodically in order to determine whether an amended certificate of estimated resources needs to be obtained.

Management's Response – We did not receive a response to this finding from management.

FINDING NUMBER 2007-007

Significant Deficiency- Posting Receipts and Expenditures

Receipts should be posted to the fund and line item accounts as established by Ohio Administrative Code Section 117-7-01.

During 2006 and 2007, several receipts and expenditures were not posted into accurate revenue classifications based on the source of the receipt or expenditure. For example, various intergovernmental, tax and note proceed revenues were not posted into the correct receipt classification. In addition, the expenditures for the debt payments were posted in accordance of actual principal and interest paid. Also, transfers to reimburse funds for FEMA disbursements were recorded as disbursements. This resulted in several reclassification entries being made to the financial statements.

We recommend the Clerk refer to Ohio Administrative Code Section 117-7-01 and/or the Ohio Township Handbook for guidance to determine the proper establishment of receipt and expenditure accounts and posting of receipts and expenditures.

Management's Response – We did not receive a response to this finding from management.

FINDING NUMBER 2007-008

Significant Deficiency- Posting Estimated Revenues and Appropriations

The Township did not have a control procedure in place to ensure that appropriations and estimated receipts, as authorized by the Board of Trustees and approved by the County Budget Commission, were reconciled to the appropriations and estimated receipts posted to the accounting system.

This resulted in incorrect amounts posted to the accounting system and information available to Township officials to monitor year-to-date total comparison of budgeted amounts versus actual amounts was not accurate. Adjustments were made to the budgetary activity reported in Note 3 to the financial statements in order to accurately present estimated receipts as Certified by the County Budget Commission.

**SALEM TOWNSHIP
MONROE COUNTY**

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

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

FINDING NUMBER 2007-008 (Continued)

We recommend the Township implement procedures to ensure appropriations and estimated receipts are accurately posted to the accounting system and reconciled to the amounts approved by the budget commission after each amendment.

Management's Response – We did not receive a response to this finding from management.

**SALEM TOWNSHIP
MONROE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC § 117-2-02(A) – Accounting System	No	Repeated as 2007-001
2005-002	ORC § 5705. 41(B) – Expenditures greater than appropriations	No	Repeated as 2007-002
2005-003	ORC § 5705. 41(D) – Prior Certification	No	Repeated as 2007-003



Mary Taylor, CPA
Auditor of State

SALEM TOWNSHIP

MONROE 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
JULY 8, 2008**