

**SALEM TOWNSHIP  
WASHINGTON COUNTY  
Regular Audit  
December 31, 2004 and 2005**





# Mary Taylor, CPA

Auditor of State

Board of Trustees  
Salem Township  
RR 2, Box 189  
Lower Salem, Ohio 45745

We have reviewed the *Independent Accountants' Report* of Salem Township, Washington County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2004 through December 31, 2005. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

April 1, 2008

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**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report .....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005 .....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Fiduciary Funds Types - For the Year Ended December 31, 2005 .....	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Funds Types - For the Year Ended December 31, 2004 .....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Fiduciary Funds Types - For the Year Ended December 31, 2004 .....	6
Notes to the Financial Statements .....	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	16
Schedule of Findings .....	18
Schedule of Prior Audit Findings .....	26

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**INDEPENDENT ACCOUNTANTS' REPORT**

January 28, 2008

Salem Township  
Washington County  
RR 2, Box 189  
Lower Salem, Ohio 45745

To the Board of Trustees:

We have audited the accompanying financial statements of the **Salem Township, Washington County, Ohio**, (the Township) as of and for the years ended December 31, 2005 and 2004. 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.

The accompanying financial statements present receipts and disbursements by fund type totals only. Ohio Administrative Code Section 117-2-02(A) requires governments to classify receipt and disbursement transactions.

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, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present it's larger (i.e. major) funds separately beginning in 2004. 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 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 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, 2005 and 2004 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, 2005 and 2004 or their changes in financial position for the year then ended.

In the prior audit, the Township declined to post a Finding for Adjustment against the General Fund in the amount of \$54,966 and against the Gasoline Tax Fund in the amount of \$1,101, in favor of the Road and Bridge Fund, Special Revenue type, in the amount of \$18,839 and in favor of the Fire Levy Fund, Special Revenue type, in the amount of \$20,619 and in favor of the E-Squad Note Fund, Debt Service Fund type, in the amount of \$16,609.

Also, in our opinion, because of the effects of the matter discussed in the preceding paragraph and the omission of receipt and disbursement classifications, the financial statements referred to above do not present fairly, in all material respects, the combined fund cash balances for the Salem Township, Washington County, as of December 31, 2005 and 2004, and its combined unclassified cash receipts and unclassified disbursements for the years then ended on the basis of accounting described in Note 1.

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, 2005 and 2004. The Government 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 January 28, 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  
WASHINGTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>				<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Cash Receipts	\$ 60,472	\$ 164,885	\$ 651	\$ 42,088	\$ 268,096
Total Cash Receipts	<u>60,472</u>	<u>164,885</u>	<u>651</u>	<u>42,088</u>	<u>268,096</u>
<b>Cash Disbursements:</b>					
Cash Disbursements	154,094	71,875	21,190	-	247,159
Total Cash Disbursements	<u>154,094</u>	<u>71,875</u>	<u>21,190</u>	<u>-</u>	<u>247,159</u>
Total Cash Receipts Over/(Under) Disbursements	<u>(93,622)</u>	<u>93,010</u>	<u>(20,539)</u>	<u>42,088</u>	<u>20,937</u>
Fund Cash Balances, January 1	<u>(74,767)</u>	<u>191,466</u>	<u>22,904</u>	<u>-</u>	<u>139,603</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$ (168,389)</u></b>	<b><u>\$ 284,476</u></b>	<b><u>\$ 2,365</u></b>	<b><u>\$ 42,088</u></b>	<b><u>\$ 160,540</u></b>

The accompanying notes to the basic financial statements are an integral part of these statements



**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Fiduciary Fund Types</b>
	<b>Non Expendable Trust</b>
<b>Cash Receipts:</b>	
Cash Receipts	\$ 103
Total Cash Receipts	103
<b>Cash Disbursements:</b>	
Cash Disbursements	-
Total Cash Disbursements	-
Total Cash Receipts Over/(Under) Disbursements	103
Fund Cash Balances, January 1	(2,372)
<b>Fund Cash Balances, December 31</b>	<b>\$ (2,269)</b>

The accompanying notes to the basic financial statements are an integral part of these statements

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
<b>Cash Receipts:</b>				
Cash Receipts	<u>\$ 317,330</u>	<u>\$ 267,164</u>	<u>\$ 13,828</u>	<u>\$ 598,322</u>
Total Cash Receipts	<u>317,330</u>	<u>267,164</u>	<u>13,828</u>	<u>598,322</u>
<b>Cash Disbursements:</b>				
Cash Disbursements	<u>368,571</u>	<u>160,532</u>	<u>6,994</u>	<u>536,097</u>
Total Cash Disbursements	<u>368,571</u>	<u>160,532</u>	<u>6,994</u>	<u>536,097</u>
Total Cash Receipts Over/(Under) Disbursements	(51,241)	106,632	6,834	62,225
Fund Cash Balances, January 1	<u>(23,526)</u>	<u>84,834</u>	<u>16,070</u>	<u>77,378</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$ (74,767)</b></u>	<u><b>\$ 191,466</b></u>	<u><b>\$ 22,904</b></u>	<u><b>\$ 139,603</b></u>

The accompanying notes to the basic financial statements are an integral part of these statements

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u><b>Fiduciary Fund Types</b></u>	<u><b>Non Expendable Trust</b></u>
<b>Cash Receipts:</b>		
Cash Receipts	\$ -	
Total Cash Receipts	<u>-</u>	
<b>Cash Disbursements:</b>		
Cash Disbursements	<u>4,561</u>	
Total Cash Disbursements	<u>4,561</u>	
Total Cash Receipts Over/(Under) Disbursements	(4,561)	
Fund Cash Balances, January 1	<u>2,189</u>	
<b>Fund Cash Balances, December 31</b>	<u><u><b>\$ (2,372)</b></u></u>	

The accompanying notes to the basic financial statements are an integral part of these statements

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Salem Township, Washington County (The Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three member Board of Trustees. The Township provides road and bridge maintenance, cemetery maintenance, fire protection, and ambulance 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).

The Township did not classify its receipts and disbursements in the accompanying financial statements. This is a material departure from the requirements of Ohio Administrative Code Section 117-02-02(A) (effective July 1, 2000). This Ohio Administrative Code Section requires classifying receipts and disbursements.

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

**C. Cash and Investments**

The Township clerk invests all available funds of the Township in an interest bearing checking account.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 reports all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

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

Motor Vehicle License Tax Fund – This fund receives motor vehicle license tax for constructing, maintaining, and repairing Township roads.

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.

Special Levy Fund – This fund receives tax money for fire protection and ambulance services for township residents.

**3. Debt Service Funds**

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness. The Township had the following significant Debt Service Fund:

Note Retirement Fund – This fund accumulates tax revenue for the repayment of debt incurred by the Township.

**4. Capital Projects Funds**

This Fund is 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:

Capital Project Fund – This fund received grant money for a road construction project.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Fund Accounting (Continued)**

**5. Fiduciary Fund (Trust Fund)**

This fund is used to account for resources restricted by legally binding trust agreements. The Township had the following significant Fiduciary Fund:

Cemetery Bequest Fund – This is a nonexpendable trust fund to be used for cemetery maintenance.

**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 commitments are made, the Township did not encumber all commitments, as required by Ohio law. Encumbrances outstanding at year-end are canceled, and reappropriated in the subsequent year.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**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:

	2005	2004
Demand Deposits	\$ 158,271	\$137,231

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ended December 31, 2005 and 2004 follows:

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 64,414	\$ 60,472	\$ (3,942)
Special Revenue	160,241	164,885	4,644
Debt Service	14,888	651	(14,237)
Capital Projects	-	42,088	42,088
Nonexpendable Trust	1,000	103	(897)
Total	\$ 240,543	\$ 268,199	\$ 27,656

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 136,063	\$ 154,094	\$ (18,031)
Special Revenue	230,681	71,875	158,806
Debt Service	-	21,190	(21,190)
Capital Projects	-	-	-
Nonexpendable Trust	-	-	-
Total	\$ 366,744	\$ 247,159	\$ 119,585

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 67,913	\$ 317,330	\$ 249,417
Special Revenue	261,243	267,164	5,921
Debt Service	15,987	13,828	(2,159)
Nonexpendable Trust	-	-	-
Total	\$ 345,143	\$ 598,322	\$ 253,179

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 175,297	\$ 368,571	\$ (193,274)
Special Revenue	227,777	160,532	67,245
Debt Service	-	6,994	(6,994)
Nonexpendable Trust	-	4,561	(4,561)
Total	\$ 403,074	\$ 540,658	\$ (137,584)

Contrary to Ohio Rev. Code 5705.10, at December 31, 2005 and 2004, the Township's General Fund and Non-Expendable Trust Fund had negative balances.

Contrary to ORC Section 5705.41 (D), the certification of availability of unencumbered appropriations for expenditure was not obtained for 100% of expenditures tested during 2005 and 100% of expenditures testing during 2004.

Contrary to ORC Section 5705.41 (B), expenditures exceeded appropriations in the General Fund and Debt Service Fund in 2005. The General Fund, Debt Service Fund, and Nonexpendable Trust Fund had expenditures exceeding appropriations in 2004.

Contrary to ORC Section 5705.39, the General Fund, Gasoline Tax, Cemetery, and Permissive Sales Tax Fund had appropriations exceeding total estimated resources during 2005. The General Fund, Gasoline Tax, Road and Bridge Fund had appropriations exceeding total estimated resources during 2004.

Contrary to ORC Section 5705.40, the legislatively approved appropriation amounts differed from the appropriation amounts reported to the County Auditor.

Contrary to ORC Section 5705.10, the General fund and Cemetery Bequest Fund had negative balances during 2004 and 2005.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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.



**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**4. PROPERTY TAX (Continued)**

Public utilities are also taxed on personal and real property located within the Township.

The property owners, who must file a list of such property to the County by each April 30, assess tangible personal property tax.

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, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Mini Pumper Loan	<u>100,921</u>	4.13%

The Mini Pumper Loan was issued in 2004 for a new fire truck. This loan is paid in annual payments of \$13,854.78 including interest at a rate of 4.13% for 10 years.

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

Year Ending December 31:	Mini Pumper Loan
2006	13,854
2007	13,854
2008	13,854
2009	13,854
2010	13,854
Thereafter	55,419
Total	124,689

**6. RETIREMENT SYSTEMS**

The Township's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS) of Ohio. OPERS is a 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.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**6. RETIREMENT SYSTEMS (Continued)**

Contribution rates are also prescribed by the Ohio Revised Code. For 2005 and 2004, OPERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2005.

**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

OTARMA retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 from the General Reinsurance Corporation.

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

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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. Travelers provide aggregate stop-loss coverage based upon the combined members' total insurable value. If the Stop loss is reached by payment of 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 2005 was \$1,682,589.

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.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

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

Members may withdraw on each anniversary of the date they joined OTARMA. They must 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 contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004:

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	(12,344,576)	(11,086,279)
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	(1,406,031)	(543,176)
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

The Casualty Coverage assets and retained earnings above include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment. The Township's share of these unpaid claims is approximately \$15,072.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**8. ADJUSTMENTS THE TOWNSHIP DECLINED TO MAKE**

The Township declined to make several material adjustments proposed by the Auditor of State. If these material adjustments would have been made, it would have the following effect on the fund balances of the Township:

Effect of Adjustments Not Made by Township				
Fund Type	12/31/2005 Audit Balance	PY & 2004 Adjustments	2005 Adjustments	12/31/05 Fund Adj Balance
General	\$ (168,389)	\$ (101,682)	\$ -	\$ (270,071)
Special Revenue	284,476	90,836	-	375,312
Debt Service	2,365	10,846		13,211
Capital Projects	42,088			42,088
Nonexpendable Trust	(2,269)	-	-	(2,269)
Total	\$ 158,271	\$ -	\$ -	\$ 158,271

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

January 28, 2008

Salem Township  
Washington County  
RR 2, Box 189  
Lower Salem, Ohio 45745

To the Board of Trustees:

We have audited the financial statements of **Salem Township, Washington County**, Ohio (the Township) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated January 28, 2008, which was qualified since the Township did not classify receipts and disbursements in the financial statements and 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 opined the financial statements were not fairly presented since the Township declined to adjust its financial statements or accounting records for improper posting of receipts and disbursements. 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.

### **Internal Control Over Financial Reporting (Continued)**

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.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting 2005-001 through 2005-011.

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 believe significant deficiencies 2005-001 through 2005-002, 2005-007 through 2005-009, and 2005-011 described above are material weaknesses.

### **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 Standard*, which are described in the accompanying schedule of findings as items 2005-001 through 2005-007 and 2005-011.

This report is intended solely for the information and use of Township management and the 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  
WASHINGTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-001**

**Noncompliance Citation/Significant Deficiency/Material Weakness**

**Ohio Rev. Code Section 5705.10** requires that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The Township had negative fund balance at December 31, 2004 as follows:

<u>Fund</u>	<u>Deficit</u>
General Fund	(\$74,767)
Cemetery Bequest Fund	(\$2,372)

The Township had negative fund balances at December 31, 2005 as follows:

<u>Fund</u>	<u>Deficit</u>
General Fund	(\$168,389)
Cemetery Bequest Fund	(\$2,269)

We recommend the Township monitor their fund balances to ensure that money from various funds is not used to pay obligations of other funds.

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

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-002**

**Noncompliance Citation/Significant Deficiency/Material Weakness**

**Ohio Rev. Code Section 118.022** states the conditions, which are grounds for a fiscal watch. Ohio Rev. Code Section 118.021 provides that a municipal corporation, county or township may undergo a fiscal watch review to determine whether it is approaching a state of fiscal emergency. The review will be initiated by a written request to the auditor of state from the mayor of the municipal corporation or by the presiding officer of the legislative authority, when authorized by a majority of the members of the legislative authority, or initiated by the Auditor of State.

At the end of December 31, 2005, the Township's General Fund had a \$23,526 deficit fund balance (See Finding Number 1).

We recommend the Township consider contacting the Auditor of State in writing, to determine if a written declaration of fiscal watch is necessary based on the Township's current condition. In addition, the Township should develop and implement a financial plan of corrective action.

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

**FINDING NUMBER 2005-003**

**Noncompliance Citation/Significant Deficiency**

**Ohio Revised Code § 5705.41(D)** requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required meeting 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. Only the subdivision's fiscal officer need sign the certificate. 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.



**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-003 (Continued)**

**Noncompliance Citation/Significant Deficiency**

1. “Then and Now” certificate - If the fiscal officer 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 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 \$3,000 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 taxing authority.
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.
3. Super Blanket Certificate – The entity 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. Only one super blanket certificate may be outstanding at a particular time for any one line-item appropriation.

The Township did not properly certify the availability of funds prior to purchase commitment for 50% of the expenditures tested during 2005 and 29% of expenditures tested in 2004. There was no evidence that the Township followed the aforementioned exceptions. Without these certifications, the management of the Township lost budgetary control over expenditures.

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 from officials to this finding.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-004**

**Noncompliance Citation/Significant Deficiency**

**Ohio Rev. Code Section 5705.36** states that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing unites are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

We noted the Township did not certify to the county auditor the total amount from all sources, which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year in 2004 and 2005.

We recommend the Township take the necessary steps to ensure and certify their budgetary documents to the County Auditor on or before the required date. We also recommend the Township perform a comparison of the estimated amounts per their budgetary documents periodically in order to determine whether an amended needs to be obtained.

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

**FINDING NUMBER 2005-005**

**Noncompliance Citation/Significant Deficiency**

**Ohio Rev. Code § 5705.39** provides that the total appropriations from each fund shall not exceed the total estimated revenue. 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 the total estimated revenue for the General Fund, Gasoline Tax, Cemetery, and Permissive Sales Tax Fund in 2005. The appropriations exceeded the total estimated revenue for the General Fund, Gasoline Tax, and Road and Bridge Fund in 2004.

The Township should monitor appropriations to ensure that appropriations do not exceed total estimated resources.

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

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-006**

**Noncompliance Citation/Significant Deficiency**

**Ohio Rev. Code Section 5705.40** requires that any appropriation ordinance or measure may be amended or supplemented, provided that such amendment or supplement shall comply with all provisions of law governing the taxing authority in making an original appropriation.

The Township Clerk posted appropriation increases to the Township's records. These increases were not filed with the County Auditor.

We recommend that the Clerk review the budgetary procedures for amending appropriations, request the Trustees' approval timely for amending appropriations, record such approval in the minute record, and file all supplemental appropriations, wherein total fund appropriations are increased, with the County Auditor.

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

**FINDING NUMBER 2005-007**

**Noncompliance Citation/Significant Deficiency/Material Weakness**

**Ohio Rev. Code Section 507.04(A)** provides, in part, that the Township Clerk shall keep an accurate record of all Township accounts and transactions. Ohio Rev. Code Section 117.38 states that each public office, other than a state agency, shall file a financial report for each fiscal year. The auditor of state may prescribe forms by rule of may issue guidelines, or both, for such reports. If the auditor of state has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. The report shall contain, in part, the amount of collections and receipts, and accounts due from each source along with the amount of expenditures for each purpose.

Ohio Admin. Code Section 117-2-02 requires all local public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code. Such records should include a cash journal, receipts ledger, appropriation ledger, payroll journals, quarterly payroll records, and vouchers.

Ohio Admin. Code §117-2-02(A) provides that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-007 (Continued)**

**Noncompliance Citation/Significant Deficiency/Material Weakness**

Ohio Admin. Code §117-2-02(C)(1) provides that all public offices should integrate the budgetary account, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts and remaining uncommitted balances of appropriations. Ohio Admin. Code Section 117-2-02(C)(2) provides that purchase orders should be used to approve purchase commitments and to encumber funds against the applicable appropriation accounts as required by 5705.41(D) of the Revised Code.

Ohio Admin. Code §117-2-02(D)(1) provides that a cash journal, which typically contains the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction, should be used.

Ohio Admin. Code §117-2-02(D)(2) provides that a receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses, should be used. The amount, date, name of the payor, purpose, receipt number, and other information required for the transactions can be recorded on this ledger.

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 Township maintained a cash journal, a receipt ledger and an appropriation ledger during the audit period. The cash journal, receipt and appropriation ledgers were not posted accurately and completely. Additionally, purchase orders were not used for most expenditures during both years under audit.

We recommend the Township utilize the aforementioned accounting and budgeting records and documents to provide the Township with information required to monitor compliance with the budget, and prepare annual reports in the format required by the Auditor of State.

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

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-008**

**Significant Deficiency/Material Weakness**

**Posting Revenues and Expenditures**

During 2005 and 2006, several expenditures related to debt were not posted into accurate Funds and /or classifications based on the source of the expenditure. These inaccurate postings resulted in debt payments being paid from the wrong fund.

We recommend the Clerk refer to the Village Policy for guidance to determine the proper establishment of expenditure accounts and posting of revenues and expenditures.

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

**FINDING NUMBER 2005-009**

**Significant Deficiency/Material Weakness**

**Cash Reconciliation's**

During 2005 and 2004, the clerk did not reconcile the end of the month bank balance to the end of the month cash balance per the Township's records.

The lack of proper reconciliation of the bank account and Township's accounting system resulted in numerous errors which remained undetected and/or uncorrected until the audit.

We recommend the Clerk reconcile the end of the month bank balance to the Township's end of the month cash balance per the Cash Journal. We recommend the Clerk perform this reconciliation on the bank statement and include this reconciliation as part of the financial report the Council approves each month.

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

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**SCHEDULE OF AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2005-010**

**Significant Deficiency**

**Payroll Reconciliation's**

During 2005, the clerk did not reconcile W2's to the Payroll Journal at the end of the year.

This could lead to employees of the Township having incorrect W-2's filed.

We recommend the Clerk reconcile the end of the year W2 report to the Township's end of the year Payroll Journal.

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

**FINDING NUMBER 2005-011**

**Noncompliance Citation/Significant Deficiency/Material Weakness**

**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 the General Fund and Debt Service Fund in 2005. The General Fund, Debt Service Fund, and Nonexpendable Trust Fund had expenditures exceeding appropriations in 2004.

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 from officials to this finding.

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

Prior Finding	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Finding for Adjustment	No	Not Corrected
2003-002	Finding for Adjustment	No	Not Corrected
2003-003	Finding for Adjustment – Fire Levy Expenditures	No	Not Corrected
2003-004	Finding for Adjustment – Gas Tax Expenditures	No	Not Corrected
2003-005	Finding for Adjustment – Gas Excise Tax Revenue	No	Not Corrected
2003-006	ORC Section 5705.10 – requires that money paid into a fund must be used for the purposes for which the fund has been established.	No	Not Corrected, Repeated as finding 2005-001
2003-007	ORC Section 118.022 – states the conditions which are grounds for fiscal watch	No	Not Corrected, Repeated as finding 2005-002
2003-008	ORC Section 5705.41(B) – prohibits a subdivision from making an expenditure unless it has been properly appropriated	No	Nor Corrected, Repeated as finding 2005-011
2003-009	ORC Section 5705.41(D) – failure to certify funds	No	Not Corrected, Repeated as finding 2005-003
2003-010	ORC Section 507.04(A) – accurate accounting records	No	Not Corrected, Repeated as finding 2005-007
2003-011	ORC Section 5705.40 – appropriations filed with auditor agree with appropriations ledger	No	Not Corrected, Repeated as finding 2005-006

**SALEM TOWNSHIP  
WASHINGTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

2003-012	ORC Section 5705.09(F) – establishing special funds used for specific purposes	Yes	N/A
2003-013	ORC Section 5705.36 – certify expenditures with county auditor	No	Not Corrected, Repeated as finding 2005-004
2003-014	Accurate cash reconciliation's	No	Not Corrected, Repeated as finding 2005-009
2003-015	USC Section 3402 – deduct accurate amount of tax	Yes	N/A
2003-016	Maintain proper payroll records	Yes	N/A
2003-017	Interfund cash advances not properly approved	Yes	N/A





**Mary Taylor, CPA**  
Auditor of State

**SALEM TOWNSHIP**

**WASHINGTON COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
APRIL 15, 2008**