



Mary Taylor, CPA  
Auditor of State



SEAL TOWNSHIP  
PIKE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter .....	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007 .....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006 .....	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> .....	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings .....	21

**This page intentionally left blank.**



Mary Taylor, CPA  
Auditor of State

Seal Township  
Pike County  
P.O. Box 262  
Piketon, Ohio 45661

To the Board of Trustees:

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

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

July 28, 2008

**This page intentionally left blank.**



# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Seal Township  
Pike County  
P.O. Box 262  
Piketon, Ohio 45661

To the Board of Trustees:

We have audited the accompanying financial statements of Seal Township, Pike 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.

Except as discussed in paragraphs 7, 8, and, 9, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, during 2006, the Township revised its financial statement presentation to follow accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

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

743 E. State St. / Athens Mall Suite B / Athens, OH 45701-2157  
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

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

During 2006, the Township changed its financial statement presentation method to conform to presentation methods the Auditor of State prescribes or permits.

During 2007, the Township improperly paid salaries for the Township Trustees from the Road and Bridge and Cemetery Funds in the amount of \$12,117 and \$15,147, respectively, that should have been paid from the General Fund in the amount of \$27,264. Due to the impact these adjustments would have on the General Fund, the Township has declined to make these adjustments this audit period.

During 2006, the Township improperly paid salaries for the Township Trustees from the Road and Bridge and Cemetery Funds in the amount of \$11,838 and \$14,796, respectively, that should have been paid from the General Fund in the amount of \$26,634. Due to the impact these adjustments would have on the General Fund, the Township has declined to make these adjustments this audit period.

Had the posting errors noted in the preceding two paragraphs been properly posted to the financial statements and the accounting system, the General Fund cash fund balance would have been decreased by \$53,898, the Road and Bridge Fund cash fund balance would have increased by \$23,955, and the Cemetery Fund cash fund balance would have increased by \$29,943.

Also, in our opinion, except for the effects of such adjustments, if any, were made to the financial statements due to the errors described in the preceding three paragraphs, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Seal Township, Pike County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated July 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.



**Mary Taylor, CPA**  
Auditor of State

July 28, 2008



**SEAL TOWNSHIP  
PIKE 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>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$19,461	\$155,587	\$175,048
Licenses, Permits, and Fees	28,368	14,385	42,753
Intergovernmental	31,563	132,564	164,127
Earnings on Investments	4,246	3,137	7,383
Miscellaneous	147	6,000	6,147
	<u>83,785</u>	<u>311,673</u>	<u>395,458</u>
<b>Total Cash Receipts</b>			
<b>Cash Disbursements:</b>			
Current:			
General Government	66,144		66,144
Public Safety		37,535	37,535
Public Works		108,475	108,475
Health		75,266	75,266
Capital Outlay	164	64,318	64,482
Debt Service:			
Redemption of Principal	15,980	46,916	62,896
Interest and Other Fiscal Charges	911	18,752	19,663
	<u>83,199</u>	<u>351,262</u>	<u>434,461</u>
<b>Total Cash Disbursements</b>			
Total Cash Receipts Over/(Under) Cash Disbursements	586	(39,589)	(39,003)
<b>Other Financing Receipts / (Disbursements):</b>			
Sale of Notes		55,000	55,000
	<u>0</u>	<u>55,000</u>	<u>55,000</u>
<b>Total Other Financing Receipts / (Disbursements)</b>			
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	586	15,411	15,997
Fund Cash Balances, January 1	81,611	197,271	278,882
<b>Fund Cash Balances, December 31</b>	<u><b>\$82,197</b></u>	<u><b>\$212,682</b></u>	<u><b>\$294,879</b></u>

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

**SEAL TOWNSHIP  
PIKE 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>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Other Local Taxes	\$18,630	\$140,323		\$158,953
Licenses, Permits, and Fees	38,688	11,950		50,638
Intergovernmental	75,187	128,532	\$71,430	275,149
Earnings on Investments	433	599		1,032
Miscellaneous	31	7,600		7,631
	<u>132,969</u>	<u>289,004</u>	<u>71,430</u>	<u>493,403</u>
<b>Cash Disbursements:</b>				
Current:				
General Government	62,557			62,557
Public Safety		44,752		44,752
Public Works		56,459	71,430	127,889
Health		69,175		69,175
Capital Outlay		6,802		6,802
Debt Service:				
Redemption of Principal	25,809	82,601		108,410
Interest and Other Fiscal Charges	922	20,719		21,641
	<u>89,288</u>	<u>280,508</u>	<u>71,430</u>	<u>441,226</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>43,681</u>	<u>8,496</u>	<u>0</u>	<u>52,177</u>
<b>Other Financing Receipts / (Disbursements):</b>				
Sale of Notes	15,980	17,494		33,474
Other Financing Sources		6,881		6,881
	<u>15,980</u>	<u>24,375</u>	<u>0</u>	<u>40,355</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	59,661	32,871	0	92,532
Fund Cash Balances, January 1	<u>21,950</u>	<u>164,400</u>		<u>186,350</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$81,611</b></u>	<u><b>\$197,271</b></u>	<u><b>\$0</b></u>	<u><b>\$278,882</b></u>

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

**SEAL TOWNSHIP  
PIKE COUNTY**

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

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Seal Township, Pike County, as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, and fire protection.

The Township participates in the Ohio Township Association Risk Management Authority public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

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

**B. Accounting Basis**

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

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

**C. 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 private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

Cemetery Fund - This fund receives property tax money, fees for the opening and closing of graves, and sale of lots for maintaining the cemeteries.

Fire Fund - This fund receives property tax money and grants for fire protection of Township residents.

**SEAL TOWNSHIP  
PIKE COUNTY**

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

**1. Summary of Significant Accounting Policies (Continued)**

**C. Fund Accounting (Continued)**

**3. Capital Project Funds**

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant Capital Project Fund.

Public Works Commission Project Fund - This fund received OPWC grant monies for a road paving project.

**D. Budgetary Process**

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

**1. Appropriations**

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

**2. Estimated Resources**

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

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

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

**E. Property, Plant, and Equipment**

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

**F. Accumulated Leave**

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

**SEAL TOWNSHIP  
PIKE COUNTY**

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

**2. Equity in Pooled Cash**

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

	2007	2006
Demand deposits	\$294,879	\$278,882

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

**3. Budgetary Activity**

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

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$78,869	\$83,785	\$4,916
Special Revenue	264,826	366,673	101,847
Total	\$343,695	\$450,458	\$106,763

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$160,480	\$83,199	\$77,281
Special Revenue	462,098	351,262	110,836
Total	\$622,578	\$434,461	\$188,117

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$126,561	\$148,949	\$22,388
Special Revenue	272,510	313,379	40,869
Capital Projects	71,430	71,430	0
Total	\$470,501	\$533,758	\$63,257

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$148,511	\$89,288	\$59,223
Special Revenue	435,911	280,508	155,403
Capital Projects	71,430	71,430	0
Total	\$655,852	\$441,226	\$214,626

**SEAL TOWNSHIP  
PIKE COUNTY**

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

**4. Property Tax**

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

**5. Debt**

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Fire Truck Lease (1998)	\$17,788	5.56%
Fire Truck Lease (2003)	295,226	5.25%
Fire Truck Loan (2008)	52,623	5.77%
Total	\$365,637	

The 1998 Fire Truck was leased on May 29, 1998 for ten years with annual payments of \$18,771, including interest. The lease was collateralized by the fire truck.

The 2003 Fire Truck was leased on December 2, 2003 for fifteen years with annual payments of \$25,000 for the first five years and \$36,793 for the remaining ten years, including interest. The lease was collateralized by the fire truck.

The 2008 Fire Truck Loan was issued on April 23, 2007 for a five year period. The loan was collateralized by the fire truck.

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

Year ending December 31:	1998 Fire Truck Lease	2003 Fire Truck Lease	2008 Fire Truck Loan	Total
2008	\$18,771	\$25,000	\$12,760	\$56,531
2009		36,793	12,760	49,553
2010		36,793	12,760	49,553
2011		36,793	12,760	49,553
2012		36,793	9,047	45,840
2013 – 2017		183,963		183,963
2018		36,793		36,793
Total	\$18,771	\$392,928	\$60,087	\$471,786

**SEAL TOWNSHIP  
PIKE COUNTY**

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

**6. Retirement System**

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

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

**7. Risk Management**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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

Casualty Coverage

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

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

Property Coverage

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

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values.

**SEAL TOWNSHIP  
PIKE COUNTY**

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

**7. Risk Management (Continued)**

If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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

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

Financial Position

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

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

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$16,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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

**Contributions to OTARMA**

2005	\$	10,374
2006	\$	10,285
2007	\$	8,994



**SEAL TOWNSHIP  
PIKE COUNTY**

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

**7. Risk Management (Continued)**

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

**8. Contingent Liabilities**

Amounts grantor agencies pay to the Township are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**This page intentionally left blank.**



# Mary Taylor, CPA

Auditor of State

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

Seal Township  
Pike County  
P.O. Box 262  
Piketon, Ohio 45661

To the Board of Trustees:

We have audited the financial statements of Seal Township, Pike County, Ohio (the Township), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated July 28, 2008, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also issued a qualified opinion on the 2007 and 2006 financial statements of the General and Special Revenue Fund types due to the Township declining to make adjustments this audit period for improper postings. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### Internal Control over Financial Reporting

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

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

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

We consider the following deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-003.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2007-001 and 2007-003 are also material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated July 28, 2008.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matter that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2007-001 and 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated July 28, 2008.

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



**Mary Taylor, CPA**  
Auditor of State  
July 28, 2008

SEAL TOWNSHIP  
PIKE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006

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

FINDING NUMBER 2007-001

**Finding For Adjustment/Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 505.24(C) sets forth the method by which township trustees' compensation should be allocated. This Section is amplified by Ohio Attorney General (OAG) Opinion Number 2004-036. This Section requires that compensation of a township trustee must be paid from the Township General Fund or from such other restricted township funds, in such proportions based on the amount of time spent on matters related to the services rendered. In addition, OAG Opinion Number 2004-036 indicates trustees should establish administrative procedures to document the proportionate amount of trustees' salaries chargeable to other township funds based on the portion of time spent on matters related to the services rendered. The "administrative procedures" can be timesheets or a similar method of record keeping, as long as the trustees document all time spent on township business and the type of service(s) performed, in a manner similar to trustees paid per diem compensation. If trustees do not document their time, then no part of salaries may be paid from these other funds. The requirements of Ohio Rev. Code Section 505.24(C) were noted in the Seal Township management letter for the audit conducted for years ending December 31, 2005 and 2004.

For 2007 and 2006, the salaries of the Board of Trustees were paid from the General Fund, Road and Bridge Fund, and the Cemetery Fund. The Trustees did not keep records documenting their time spent on township business and the type of service performed on these funds. Trustees' salaries are to be paid from the General Fund unless administrative procedures are established to document the proportionate amount of Trustees' salaries chargeable to other Township funds.

As a result of the foregoing facts, a Finding For Adjustment is hereby issued against the Township's General Fund in the amount of \$53,898 and in favor of the Road and Bridge Fund and Cemetery Fund in the amounts of \$23,955 and \$29,943, respectively.

The Fiscal Officer has not posted this adjustment to the Township records and, therefore, this adjustment is not reflected in the accompanying financial statements.

We recommend the Township adopt formal administrative procedures regarding documenting the time spent by the Board of Trustees on various duties. Once these administrative procedures are established trustee salaries and related benefits should be charged to the applicable funds in accordance with the timesheets or other similar method of record keeping.

FINDING NUMBER 2007-002

**Noncompliance Citation**

Ohio Rev. Code Section 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.

SEAL TOWNSHIP  
PIKE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006  
(Continued)

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

FINDING NUMBER 2007-002 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

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

**1. "Then and Now" Certificate** – If the fiscal officer can certify 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 Township can authorize the drawing of a warrant for the payment of the amount due. The Township 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 Township.

**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 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.

Thirteen percent (13%) of disbursements tested in 2006 and thirty-eight percent (38%) of disbursements tested in 2007 had invoice dates preceding the encumbrance date. Also, the Board of Trustees did not establish an amount by resolution for which a "blanket certificate" may be certified and the Board of Trustees did not approve payment by resolution on "Then and Now" certificates over \$3,000 within thirty days of receiving such certificate.

Failure to certify the availability of funds properly can result in overspending funds and negative cash fund balances.

**SEAL TOWNSHIP  
PIKE COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006  
(Continued)**

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

**FINDING NUMBER 2007-002 (Continued)**

**Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)**

Unless the Township uses the exceptions noted above, prior certification is not only required by statute but is also 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 the Fiscal Officer certify that funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used and the Board of Trustees should approve "then and now" certificates over \$3,000 by resolution within thirty days of receiving them. Also, we recommend the Board of Trustees establish an amount by resolution limiting the dollar value at which "blanket" certificates can be certified.

We recommend the Township certify purchases to which Ohio Rev. Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Ohio Rev. Code Section 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification prior to the Township incurring a commitment, and only when the requirements of Ohio Rev. Code Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase orders to the proper appropriation code to reduce the available appropriation.

**FINDING NUMBER 2007-003**

**Material Weakness**

Sound financial reporting is the responsibility of the fiscal officer and governing board and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustment or reclassification:

- \* In 2006, insurance proceeds of \$6,881 were misclassified as intergovernmental revenue instead of other financing sources in the Fire Fund.
- \* In 2006, loan rollovers of \$15,980 in the General Fund and \$17,494 in the Gas Tax Fund were not recorded.
- \* In 2006, the Ohio Public Works Commissions share of the Happy Hollow Road Paving Project in the amount of \$71,430 for the revenue and expense was not recorded in the Public Works Commission Project Fund.
- \* In 2007, real estate, personal property, and manufactured home tax receipts were misclassified as intergovernmental revenue and property tax replacement revenue and dealer's intangible tax were misclassified as tax revenue in several funds.
- \* In 2007, the Pike County Commissioners paid \$10,000 on the Township's chip and seal project and the in-kind revenue and expense was not recorded in the Gas Tax Fund.

SEAL TOWNSHIP  
PIKE COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2007 AND 2006  
(Continued)

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

FINDING NUMBER 2007-003 (Continued)

**Material Weakness (Continued)**

- \* In 2007, the down payment of \$5,000 for a fire truck was incorrectly recorded in the Cemetery Fund, instead of the Fire Fund.
- \* In 2007, note proceeds of \$55,000 for the fire truck were misclassified as other financing sources instead of sale of notes.
- \* In 2006, Gasoline Tax Fund disbursements of \$683 which should be classified as Public Works disbursements were classified as General Government expenditures.
- \* In 2006, Road and Bridge Fund disbursements of \$341 which should be classified as Public Works disbursements were classified as General Government expenditures.
- \* In 2006, Cemetery Fund disbursements of \$1,678 which should be classified as Health disbursements were classified as General Government and Other expenditures.
- \* In 2006, Fire Fund disbursements of \$38,175 which should be classified as Public Safety disbursements were classified as General Government expenditures.
- \* In 2007, Fire Fund disbursements of \$33,654 which should be classified as Public Safety disbursements were classified as General Government expenditures.

All of the above noted adjustments have been posted to the financial statements and to the Township's UAN accounting system.

To ensure the Township's financial statements and notes to the financial statements are complete and accurate, the Township should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer or the Board of Trustees, to identify and correct errors or omissions.

**Officials' Response:** We did not receive a response from Officials to the findings reported above.



SEAL TOWNSHIP  
PIKE 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; <b><i>Explain</i></b>
2005-001	Ohio Rev. Code Section 5705.41(B), expenditures exceeded legislatively approved appropriations at the fund and legal level of control.	No	Partially Corrected. Amount was not as significant, so it was included as a management letter comment.





**Mary Taylor, CPA**  
Auditor of State

**SEAL TOWNSHIP**

**PIKE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 21, 2008**