



**Mary Taylor, CPA**  
Auditor of State



**CANAAN TOWNSHIP  
ATHENS COUNTY**

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# Mary Taylor, CPA

Auditor of State

Canaan Township  
Athens County  
6511 Wright Road  
Athens, Ohio 45701

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 a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Township to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

March 26, 2007

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Canaan Township  
Athens County  
6511 Wright Road  
Athens, Ohio 45701

To the Board of Trustees:

We have audited the accompanying financial statements of Canaan Township, Athens County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. 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 this 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, 2006 and 2005 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, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Canaan Township, Athens County, Ohio, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the years ended December 31, 2006 and 2005. 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 March 26, 2007, 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

March 26, 2007



**CANAAN TOWNSHIP  
ATHENS 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>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 60,603	\$ 244,433	\$ 305,036
Intergovernmental	27,632	108,857	136,489
Earnings on Investments	1,437	123	1,560
Other Revenue	1,019	4,372	5,391
	<u>90,691</u>	<u>357,785</u>	<u>448,476</u>
<b>Cash Disbursements:</b>			
Current:			
General Government	77,616		77,616
Public Safety		167,083	167,083
Public Works		108,399	108,399
Health		19,218	19,218
Debt Service:			
Redemption of Principal		30,980	30,980
Interest and Fiscal Charges		1,590	1,590
Capital Outlay	98	5,503	5,601
	<u>77,714</u>	<u>332,773</u>	<u>410,487</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>12,977</u>	<u>25,012</u>	<u>37,989</u>
<b>Other Financing Receipts/(Disbursements):</b>			
Other Sources	1,988		1,988
Other Uses	(347)	0	(347)
	<u>1,641</u>	<u>0</u>	<u>1,641</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	14,618	25,012	39,630
Fund Cash Balances, January 1	<u>13,989</u>	<u>253,277</u>	<u>267,266</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$ 28,607</b></u>	<u><b>\$ 278,289</b></u>	<u><b>\$ 306,896</b></u>
Reserve for Encumbrances, December 31	<u>1,888</u>	<u>10,309</u>	<u>12,197</u>

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

**CANAAN TOWNSHIP  
ATHENS 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>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 61,838	\$ 252,054	\$ 313,892
Intergovernmental	25,017	139,275	164,292
Earnings on Investments	49	1,035	1,084
Miscellaneous	56	9,300	9,356
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	86,960	401,664	488,624
	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>			
Current:			
General Government	79,340		79,340
Public Safety		132,861	132,861
Public Works		87,318	87,318
Health		8,573	8,573
Debt Service:			
Redemption of Principal		48,164	48,164
Interest and Fiscal Charges		2,414	2,414
Capital Outlay	11	15,711	15,722
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	79,351	295,041	374,392
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	7,609	106,623	114,232
	<hr/>	<hr/>	<hr/>
<b>Other Financing Receipts/(Disbursements):</b>			
Other Sources	4,483		4,483
Other Uses	(430)	0	(430)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	4,053	0	4,053
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	11,662	106,623	118,285
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	2,327	146,654	148,981
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b><u>\$ 13,989</u></b>	<b><u>\$ 253,277</u></b>	<b><u>\$ 267,266</u></b>
	<hr/>	<hr/>	<hr/>
Reserve for Encumbrances, December 31	<u>\$ 1,888</u>	<u>\$ 10,309</u>	<u>\$ 12,197</u>

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

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005**

**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 Canaan Township, Athens County (the Township), 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 contracts with the Ames and Richland Area Fire Departments to provide fire protection.

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

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

**C. Cash and Investments**

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

**D. Fund Accounting**

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

**1. General Fund**

The General Fund 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 had the following significant Special Revenue Funds:

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

Fire District - This fund receives property tax money to provided fire protection services.

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

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

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds (Continued)**

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

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund and function 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 unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over and need not be reappropriated in the subsequent year.

A summary of 2005 and 2006 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

**G. Accumulated Leave**

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

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**2. EQUITY IN POOLED CASH AND INVESTMENTS**

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

	2006	2005	
Demand deposits	\$ 306,896	\$ 267,266	

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation; or collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2006 follows:

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 91,400	\$ 92,679	\$ 1,279
Special Revenue	389,569	357,785	(31,784)
Total	\$ 480,969	\$ 450,464	\$ (30,505)

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 89,500	\$ 79,949	\$ 9,551
Special Revenue	374,500	343,082	31,418
Total	\$ 464,000	\$ 423,031	\$ 40,969

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 90,600	\$ 91,443	\$ 843
Special Revenue	272,320	401,664	129,344
Total	\$ 362,920	\$ 493,107	\$ 130,187

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 90,530	\$ 81,669	\$ 8,861
Special Revenue	315,900	305,350	10,550
Total	\$ 406,430	\$ 387,019	\$ 19,411

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the Gasoline Tax Fund, Fire District Fund and FEMA Fund for the year ended December 31, 2005. Budgetary expenditures exceeded appropriation authority in the Fire District Fund and FEMA Fund for the year ended December 31, 2006.

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt 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.

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

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

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

**5. DEBT**

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Promissory Note - Dump Truck	\$ 26,066	2.15%
Promissory Note - Tractor	7,936	2.45%
Total	\$ 34,002	

The Dump Truck Promissory Note was for the purchase of a dump truck. The original note payable was for \$62,033. The full faith and credit of the Township has been pledged to repay the debt.

The Tractor Promissory Note was for the purchase of a tractor. The original note payable was for \$38,083. The full faith and credit of the Township has been pledged to repay the debt.

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

Year ending December 31:	Dump Truck Prommissory Note	Tractor Note
2007	\$ 13,218	\$ 8,132
2008	\$ 13,218	
2009	422	
Total	\$ 26,858	\$ 8,132

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(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 these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005, OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. For 2006, OPERS members contributed 9.0 percent of their gross salaries. The Township contributed an amount equaling 13.70 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

**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 townships 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 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. Townships can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

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

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides 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.

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

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

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

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 (the latest information available):

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$ 30,485,638	\$ 28,132,620
Liabilities	<u>(12,344,576)</u>	<u>(11,086,379)</u>
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	<u>(1,406,031)</u>	<u>(543,176)</u>
Retained Earnings	<u>\$ 7,771,765</u>	<u>\$ 7,045,167</u>

At December 31, 2005 and 2004, respectively, casualty coverage liabilities noted above include approximately \$11.6 million and \$10.3 million of estimated incurred claims payable. The casualty coverage assets and retained earnings above also 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. 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 \$13,578. 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.



**CANAAN TOWNSHIP  
ATHENS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

Township Contributions to OTARMA	
<hr/>	
2003	\$ 5,764
2004	6,210
2005	6,788
2006	6,789

After completing one year of membership, 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 contributions, minus the subsequent year's 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 was incurred or reported prior to the withdrawal.

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# Mary Taylor, CPA

Auditor of State

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

Canaan Township  
Athens County  
6511 Wright Road  
Athens, Ohio 45701

To the Board of Trustees:

We have audited the financial statements of Canaan Township, Athens County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005 and have issued our report thereon dated March 26, 2007, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township used 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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.

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.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

We noted certain matters that we reported to the Township's management in a separate letter dated March 26, 2007.

### **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 that we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-001 and 2006-002.

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 March 26, 2007.

The Township's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Township's response and, accordingly, we express no opinion on it.

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



**Mary Taylor, CPA**  
Auditor of State

March 26, 2007

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005**

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

**FINDING NUMBER 2006-001**

**Noncompliance Citation**

Ohio Revised Code Section 5705.41(B) prohibits a subdivision or taxing unit from expending money unless it has been appropriated.

We found expenditures exceeded appropriations in the following funds:

At December 31, 2005:

Fund	Appropriations	Budgetary Expenditures	Unfavorable Variance
Gasoline Tax	\$ 69,400	\$ 79,989	\$ (10,589)
Fire District	20,350	36,424	(16,074)
FEMA	0	11,131	(11,131)

At December 31, 2006:

Fund	Appropriations	Budgetary Expenditures	Unfavorable Variance
Fire District	\$ 65,600	\$ 90,254	\$ (24,654)
FEMA	0	4,500	(4,500)

Spending monies which have not been properly appropriated could result in deficit cash balances.

We recommend the Township Fiscal Officer not certify the availability of funds or approve payment requests exceeding appropriations. The Township Fiscal Officer may request the Board of Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources if necessary.

**Client's Response:**

The Township officials chose not to respond to this finding.

**FINDING NUMBER 2006-002**

**Noncompliance Citation**

Ohio Revised Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless there is a certificate of the fiscal officer attached that the amount required for the order or contract 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 encumbrances.

There are several exceptions to this basic requirement, one of which is provided by Ohio Revised Code Section 5705.41(D)(1):

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-002 (Continued)**

**Noncompliance Citation – Ohio Revised Code section 5704.51(D)(1) (Continued)**

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority 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.

1987 Ohio Attorney General Opinion Number 87-069 provides the following exceptions to Ohio Revised Code Section 5705.41(D):

- 1) Continuing Contracts to be Performed in Whole or in Part in an Ensuing Fiscal Year - Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified. (1987 Op. Atty. Gen. 87-069).
- 2) Per Unit Contracts - Where contracts are entered into on a per unit basis, only the amount estimated to become due in the current fiscal year need be certified. (1987 Op. Atty. Gen. 87-069).
- 3) Contract or Lease Running Beyond the Termination of the Fiscal Year - Pursuant to Ohio Rev. Code Section 5705.44, where a contract or lease runs beyond the termination of the fiscal year in which it is made, only the amount of the obligation maturing in the current fiscal year need be certified. The remaining amount is a fixed charge required to be provided for in the subsequent fiscal year's appropriations.

1987 Op. Atty. Gen. No. 87-069 clarified the application of the exceptions set forth above. In summary, it indicated that:

- If a government subject to Ohio Revised Code Section 5705.41(D) enters into a continuing contract under which no goods or services will be delivered during the current fiscal year and payment will not be due until delivery, no amount need be certified as available during the current fiscal year. Pursuant to Ohio Revised Code Section 5705.44, the amount remaining unpaid at the end of a fiscal year to become due in the next fiscal year must be included in the annual appropriations measure for the next fiscal year as a fixed charge.
- If under a continuing contract it cannot be determined whether delivery of goods or services and the obligation to make payment will take place in the current or ensuing fiscal year, the total amount due under the contract must be certified as available during the current year.

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-002 (Continued)**

**Noncompliance Citation - Ohio Revised Code section 5704.51(D)(1) (Continued)**

- If under a continuing contract delivery of goods or services is to occur in the current fiscal year with the obligation to make payment deferred until an ensuing fiscal year, the amount required to meet the obligation for goods or services delivered during the current fiscal year must be certified as available in that fiscal year.
- If a government subject to Ohio Rev. Code Section 5705.41(D)(1) enters into a contract that is not a continuing contract, the total amount due under the contract must be certified as available in the fiscal year in which the contract is made, regardless of when delivery of goods or services will be made or when payment will become due.

Of the transactions tested, 17 percent of the 2005 and 19 percent of the 2006 expenditures were not certified by the Fiscal Officer at the time the commitment was incurred. In addition, 75% of 2005 recurring expenditures such as utility payments were not properly encumbered, as well as 88% of 2006 recurring expenditures. Further there was no evidence that the Township used "Then and Now" Certificates nor did the recurring expenditures meet the definition of a continuing contract.

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 Township Fiscal Officer certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

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

**Client's Response:**

The Township Fiscal Officer certified these purchases based on the invoice dates rather than when the services were rendered and the obligation was initiated.

**CANAAN TOWNSHIP  
ATHENS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005**

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>
2004-001	A material noncompliance citation was issued under Ohio Revised Code Section 5705.41(B) for expenditures exceeding appropriations in 2002 and 2001.	No	Not Corrected:  This item is repeated in the current audit Schedule of Findings as finding number 2006-001.





**Mary Taylor, CPA**  
Auditor of State

**CANAAN TOWNSHIP**

**ATHENS 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  
MAY 10, 2007**