



**Auditor of State
Betty Montgomery**

**SALEM TOWNSHIP
HIGHLAND COUNTY**

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**Auditor of State
Betty Montgomery**

Salem Township
Highland County
1244 North Hollowtown Road
Hillsboro, Ohio 45133

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 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 opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

July 25, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Salem Township
Highland County
1244 North Hollowtown Road
Hillsboro, Ohio 45133

To the Board of Trustees:

We have audited the accompanying financial statements of Salem Township, Highland County, Ohio (the Township), as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 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 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 year ended December 31, 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, 2004, or their changes in financial position for the year then ended.

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Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Salem Township, Highland County, Ohio, as of December 31, 2004 and 2003, 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 year ended December 31, 2004. 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 25, 2005, 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.



Betty Montgomery
Auditor of State

July 25, 2005

**SALEM TOWNSHIP
HIGHLAND COUNTY**

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

	General	Special Revenue	Fiduciary Funds	Totals (Memorandum Only)
Cash Receipts:				
Local Taxes	\$ 15,749	\$ -	\$ -	\$ 15,749
Intergovernmental	14,031	79,683		93,714
Special Assessments		379		379
Earnings on Investments	-		1	1
Other Revenue	375			375
 Total Cash Receipts	<u>30,155</u>	<u>80,062</u>	<u>1</u>	<u>110,218</u>
Cash Disbursements:				
Current:				
General Government	18,236			18,236
Public Works		45,005		45,005
Health	7,701	977		8,678
Miscellaneous			1	1
 Total Cash Disbursements	<u>25,937</u>	<u>45,982</u>	<u>1</u>	<u>71,920</u>
 Total Receipts Over Disbursements	4,218	34,080	-	38,298
Other Financing Receipts:				
Other Sources		1,890		1,890
 Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements	4,218	35,970	-	40,188
 Fund Cash Balances, January 1	14,929	42,293	119	57,341
 Fund Cash Balances, December 31	\$ 19,147	\$ 78,263	\$ 119	\$ 97,529

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

**SALEM TOWNSHIP
HIGHLAND COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	General	Special Revenue	Fiduciary Funds	Totals (Memorandum Only)
Cash Receipts:				
Local Taxes	\$ 14,863	\$ -	\$ -	\$ 14,863
Intergovernmental	13,928	64,702		78,630
Special Assessments		424		424
Earnings on Investments	11	17	1	29
Other Revenue	525			525
 Total Cash Receipts	29,327	65,143	1	94,471
Cash Disbursements:				
Current:				
General Government	21,427			21,427
Public Works		89,113		89,113
Health	7,606	880		8,486
Miscellaneous			2	2
Capital Outlay	281	4,000		4,281
 Total Cash Disbursements	29,314	93,993	2	123,309
 Total Receipts Over/(Under) Disbursements	13	(28,850)	(1)	(28,838)
Other Financing Receipts/(Disbursements)				
Other Sources		296		296
 Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	13	(28,554)	(1)	(28,542)
 Fund Cash Balances, January 1	14,916	70,847	120	85,883
 Fund Cash Balances, December 31	\$ 14,929	\$ 42,293	\$ 119	\$ 57,341

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

**SALEM TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Salem Township, Highland County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and cemetery maintenance. The Township is a member of the Lynchburg Area Joint Fire and Ambulance District which provides fire and ambulance services to the Township residents.

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 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 Deposits

The Township deposits all available funds in a "Public Fund Now" checking account at a local commercial bank. The nonexpendable cemetery trust fund is maintained in a savings account at a local commercial bank.

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:

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

**SALEM TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cemetery Fund - This fund receives proceeds from the sale of cemetery lots for maintaining Township cemeteries.

Permissive Motor Vehicle License Tax Fund - This fund receives proceeds from motor vehicle licenses taxes assessed by Highland County for road maintenance and repairs.

Street Light Fund - This fund receives the proceeds from a special assessment to provide street light to specific residences paying the assessment.

3. Fiduciary Funds (Nonexpendable Trust Funds)

This fund accounts for resources restricted by legally binding trust agreements. The Township had the following nonexpendable trust fund:

Stroup Cemetery Bequest Fund – This fund is used for the grave upkeep and care.

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not use the encumbrance method of accounting. There were no material unrecorded encumbrances at December 31, 2004 or 2003.

A summary of 2004 and 2003 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.

**SALEM TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

2. EQUITY IN POOLED CASH

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

	2004	2003
Demand deposits	97,429	57,241
Savings account	100	100
Total Deposits	\$97,529	\$57,341

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$26,650	\$30,155	\$3,505
Special Revenue	72,750	81,952	9,202
Fiduciary	2	1	(1)
Total	\$99,402	\$112,108	\$12,706

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$41,575	\$25,937	\$15,638
Special Revenue	114,788	45,982	68,806
Fiduciary	120	1	119
Total	\$156,483	\$71,920	\$84,563

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$24,350	\$29,327	\$4,977
Special Revenue	69,860	65,439	(4,421)
Fiduciary	3	1	(2)
Total	\$94,213	\$94,767	\$554

**SALEM TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$40,792	\$29,314	\$11,478
Special Revenue	138,949	93,993	44,956
Fiduciary	120	2	118
Total	\$179,861	\$123,309	\$56,552

The Township did not obtain prior certification of the fiscal officer for all purchases nor were commitments properly encumbered as required by Ohio Law.

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. RETIREMENT SYSTEMS

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

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, members of OPERS contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2004.

**SALEM TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

6. RISK MANAGEMENT

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. 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, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 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 \$10,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, 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. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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.

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, 2003 and 2002, (the latest information available).

**SALEM TOWNSHIP
HIGHLAND COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

6. RISK MANAGEMENT (Continued)

<u>Casualty Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$27,792,223	\$23,757,036
Liabilities	<u>(11,791,300)</u>	<u>(9,197,512)</u>
Retained earnings	<u>\$16,000,923</u>	<u>\$14,559,524</u>

<u>Property Coverage</u>	<u>2003</u>	<u>2002</u>
Assets	\$6,791,060	\$6,596,996
Liabilities	<u>(750,956)</u>	<u>(1,204,326)</u>
Retained earnings	<u>\$6,040,104</u>	<u>\$5,392,670</u>



**Auditor of State
Betty Montgomery**

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

Salem Township
Highland County
1244 North Hollowtown Road
Hillsboro, Ohio 45133

To the Board of Trustees:

We have audited the financial statements of the Salem Township, Highland County, Ohio (the Township), as of and for the year ended December 31, 2004 and 2003, and have issued our report thereon dated July 25, 2005, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-01. In a separate letter to the Township's management dated July 25, 2005, we reported an other matter involving internal control over financial reporting we did not deem a reportable condition.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as item 2004-001.

We intend this report solely for the information and use of the management and Board of Trustees. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

July 25, 2005

**SALEM TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-001

Noncompliance Citation/Reportable Condition

Ohio Rev. Code, Section 5705.41(D), provides that a subdivision or taxing unit shall not make any contract or order involving the disbursement of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment.

This Section also provides two exceptions to the above requirements:

1. Then and Now Certificate – This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that the fiscal officer is completing the 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.
2. 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.

Of the expenditures tested, 57% did not contain either the prior certification or then and now certification of the fiscal officer. Additionally, none of the purchase orders written were encumbered in the appropriation ledger.

The Clerk's certification is not only required by Ohio law, but is also a key control in the disbursement process. Without proper certification of funds, disbursements could be made without adequate current resources being available, or disbursements could be made in excess of authorized appropriations. Prior certification should be obtained for all disbursements and all purchase orders written should be encumbered in the appropriation ledger. In instances when prior certifications are not practical, 'then and now' certifications should be made.

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**SALEM TOWNSHIP
HIGHLAND COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2002-40436-001	Prior certification for expenditures not obtained	NO	Repeated as Finding 2004-001



**Auditor of State
Betty Montgomery**

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SALEM TOWNSHIP

HIGHLAND 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 23, 2005**