



Dave Yost • Auditor of State



VILLAGE OF SOUTH SALEM  
ROSS COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report .....	1
Prepared by Management:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types for Year ended December 31, 2017 .....	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Proprietary Fund Type – Enterprise Funds for Year ended December 31, 2017 .....	4
Notes to the Financial Statements for Year ended December 31, 2017 .....	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - All Governmental Fund Types for Year ended December 31, 2016 .....	11
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Cash Basis) - Proprietary Fund Type – Enterprise Funds for Year ended December 31, 2016 .....	12
Notes to the Financial Statements for Year ended December 31, 2016 .....	13
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> .....	19
Schedule of Findings.....	21

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Village of South Salem  
Ross County  
2997 Church Street  
South Salem, Ohio 45681

To the Council Members:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of South Salem, Ross County, Ohio (the Village) as of and for the years ended December 31, 2017 and 2016.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### ***Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles***

As described in Note 2 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2017 and 2016, and the respective changes in financial position thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of South Salem, Ross County as of December 31, 2017 and 2016, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, on our consideration of the Village'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

November 19, 2018

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$1,685	\$0	\$1,685
Intergovernmental	18,041	9,873	27,914
Charges for Services	2,400	0	2,400
Earnings on Investments	717	149	866
Miscellaneous	961	0	961
<i>Total Cash Receipts</i>	<u>23,804</u>	<u>10,022</u>	<u>33,826</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	6,229	0	6,229
Transportation	0	2,941	2,941
General Government	37,080	0	37,080
<i>Total Cash Disbursements</i>	<u>43,309</u>	<u>2,941</u>	<u>46,250</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(19,505)</u>	<u>7,081</u>	<u>(12,424)</u>
<i>Fund Cash Balances, January 1</i>	<u>101,272</u>	<u>46,045</u>	<u>147,317</u>
<b>Fund Cash Balances, December 31</b>			
Restricted	0	53,126	53,126
Assigned	78,748	0	78,748
Unassigned (Deficit)	3,019	0	3,019
<i>Fund Cash Balances, December 31</i>	<u><u>\$81,767</u></u>	<u><u>\$53,126</u></u>	<u><u>\$134,893</u></u>

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

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
PROPRIETARY FUND TYPE - ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

<b>Operating Cash Receipts</b>	
Charges for Services	\$51,849
Miscellaneous	1,975
	<hr/>
<i>Total Operating Cash Receipts</i>	<i>53,824</i>
	<hr/>
<b>Operating Cash Disbursements</b>	
Personal Services	5,124
Employee Fringe Benefits	2,848
Contractual Services	13,810
	<hr/>
<i>Total Operating Cash Disbursements</i>	<i>21,782</i>
	<hr/>
<i>Operating Income (Loss)</i>	<i>32,042</i>
	<hr/>
<b>Non-Operating Receipts (Disbursements)</b>	
Special Assessments	10,375
Capital Outlay	(3,492)
Principal Retirement	(9,200)
Interest and Other Fiscal Charges	(21,579)
	<hr/>
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(23,896)</i>
	<hr/>
<i>Income (Loss) before Transfers</i>	<i>8,146</i>
	<hr/>
Transfers In	35,304
Transfers Out	(35,304)
	<hr/>
<i>Net Change in Fund Cash Balances</i>	<i>8,146</i>
	<hr/>
<i>Fund Cash Balances, January 1</i>	<i>135,589</i>
	<hr/>
<i>Fund Cash Balances, December 31</i>	<i>\$143,735</i>
	<hr/> <hr/>

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



**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017**

**1. Reporting Entity**

The Village of South Salem (the Village), Ross County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides sewer utilities, street and lighting services. The Village contracts with Paint Creek Joint EMS & Fire District to receive fire protection services.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary fund types which are organized on a fund type basis.

***Fund Accounting***

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

***General Fund*** The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Special Revenue Fund*** These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Fund:

***Street Construction Maintenance and Repair*** The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

***Enterprise Funds*** These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

***Sewer Fund*** The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

***Improvement Fund*** The utility improvement fund accounts for funds transferred from the Sewer Operating Fund to pay for improvements.

***Enterprise Debt Service Fund*** This fund is used for the annual debt payment of the United States Department of Agriculture bonds. Funds are transferred from the Sewer Operating Fund to retire the debt.

***Enterprise Debt Service Reserve Fund*** This fund is used to accumulate one year of debt service payments as per the bond indenture agreement.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(Continued)**

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

***Basis of Accounting***

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Village 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

***Budgetary Process***

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

***Appropriations*** Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund and object code, level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

***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 approve estimated resources.

***Encumbrances*** The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and appropriated in the subsequent year.

A summary of 2017 budgetary activity appears in Note 3.

***Deposits***

The Village utilizes a checking account only.

***Capital Assets***

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

***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

***Nonspendable*** The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(Continued)**

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

**Restricted** Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**Committed** Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**Assigned** Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**3. Budgetary Activity**

Budgetary activity for the year ending 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$20,638	\$23,804	\$3,166
Special Revenue	8,900	10,022	1,122
Enterprise	86,404	99,503	13,099
Total	\$115,942	\$133,329	\$17,387

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$101,000	\$43,309	\$57,691
Special Revenue	40,000	2,941	37,059
Enterprise	133,404	91,357	42,047
Total	\$274,404	\$137,607	\$136,797

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(Continued)**

**4. Deposits**

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

	<u>2017</u>
Demand deposits	<u>\$278,628</u>
Total deposits	<u>278,628</u>

***Deposits***

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

**5. Taxes**

***Property Taxes***

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

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

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

**6. Risk Management**

Workers' Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs (if material).

***Commercial Insurance***

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(Continued)**

**7. Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2017.

**8. Postemployment Benefits**

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

**9. Debt**

Debt outstanding at December 31, 2017 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
United States Department of Agriculture Bond	<u>\$445,500</u>	5%
	<u><u>\$445,500</u></u>	

The Village of South Salem in 2002 issued 40 year bonds thru USDA for the construction of a gravity fed collection pond sewer system. Residents are assessed a monthly charge to operate the system and retire the debt.

The sewer revenue bond covenant requires the Village to establish and fund a debt service reserve fund. The fund is included in the Enterprise Funds on the accompanying financial statements. The balance in the fund at December 31, 2017 is \$32,508.

***Amortization***

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

VILLAGE OF SOUTH SALEM  
ROSS COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(Continued)

9. Debt (Continued)

Year Ending December 31:	USDA Bond
2018	\$30,842
2019	30,782
2020	30,802
2021	30,698
2022	30,876
2023-2027	153,949
2028-2032	153,969
2033-2037	154,024
2038-2042	154,323
Total	<u>\$770,265</u>

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$1,603	\$0	\$1,603
Intergovernmental	17,893	8,841	26,734
Charges for Services	1,875	0	1,875
Fines, Licenses and Permits	300	0	300
Earnings on Investments	1,171	232	1,403
Miscellaneous	149	0	149
<i>Total Cash Receipts</i>	22,991	9,073	32,064
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	6,024	0	6,024
Transportation	0	10,630	10,630
General Government	12,166	0	12,166
<i>Total Cash Disbursements</i>	18,190	10,630	28,820
<i>Excess of Receipts Over (Under) Disbursements</i>	4,801	(1,557)	3,244
<i>Fund Cash Balances, January 1</i>	96,471	47,602	144,073
<b>Fund Cash Balances, December 31</b>			
Restricted	0	46,045	46,045
Assigned	80,362	0	80,362
Unassigned (Deficit)	20,910	0	20,910
<i>Fund Cash Balances, December 31</i>	\$101,272	\$46,045	\$147,317

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

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
PROPRIETARY FUND TYPE - ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

<b>Operating Cash Receipts</b>	
Charges for Services	\$38,782
Miscellaneous	770
	39,552
<i>Total Operating Cash Receipts</i>	<i>39,552</i>
<b>Operating Cash Disbursements</b>	
Personal Services	8,819
Employee Fringe Benefits	3,104
Contractual Services	15,031
	26,954
<i>Total Operating Cash Disbursements</i>	<i>26,954</i>
<i>Operating Income (Loss)</i>	<i>12,598</i>
<b>Non-Operating Receipts (Disbursements)</b>	
Special Assessments	12,342
Principal Retirement	(8,400)
Interest and Other Fiscal Charges	(22,397)
	(18,455)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(18,455)</i>
<i>Income (Loss) before Transfers</i>	<i>(5,857)</i>
Transfers In	35,304
Transfers Out	(35,304)
	(5,857)
<i>Net Change in Fund Cash Balances</i>	<i>(5,857)</i>
<i>Fund Cash Balances, January 1</i>	<i>141,446</i>
<i>Fund Cash Balances, December 31</i>	<i>\$135,589</i>

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



**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

**1. Reporting Entity**

The Village of South Salem (the Village), Ross County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides sewer utilities, street lighting and street road services. The Village is covered by the Paint Creek Joint Fire and Ambulance District for fire and ambulance services.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary fund types which are organized on a fund type basis.

***Fund Accounting***

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

***General Fund*** The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Special Revenue Funds*** These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Fund:

***Street Construction Maintenance and Repair*** The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.

***Enterprise Funds*** These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

***Sewer Fund*** The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

***Improvement Fund*** The utility improvement fund accounts for funds transferred from the Sewer Operating Fund to pay for improvements.

***Enterprise Debt Service Fund*** This fund is used for the annual debt payment of the United States Department of Agriculture bonds. Funds are transferred from the Sewer Operating Fund to retire the debt.

***Enterprise Debt Service Reserve Fund*** This fund is used to accumulate one year of debt service payments as per the bond indenture agreement.

VILLAGE OF SOUTH SALEM  
ROSS COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)

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

***Basis of Accounting***

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Village 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

***Budgetary Process***

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

***Appropriations*** Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund and object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

***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 approve estimated resources.

***Encumbrances*** The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2016 budgetary activity appears in Note 3.

***Deposits***

The Village utilizes a checking account only.

***Capital Assets***

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

***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

***Nonspendable*** The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

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

**Restricted** Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**Committed** Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**Assigned** Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**3. Budgetary Activity**

Budgetary activity for the year ending 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$20,745	\$22,991	\$2,246
Special Revenue	9,200	9,073	(127)
Enterprise	89,164	87,198	(1,966)
Total	\$119,109	\$119,262	\$153

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$101,000	\$18,190	\$82,810
Special Revenue	40,000	10,630	29,370
Enterprise	131,404	93,055	38,349
Total	\$272,404	\$121,875	\$150,529

**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)**

**4. Deposits**

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

Demand deposits	\$282,906
Total deposits	282,906

***Deposits***

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

**5. Taxes**

***Property Taxes***

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

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

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

**6. Risk Management**

Workers' Compensation coverage is provided by the State of Ohio. The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs (if material).

***Commercial Insurance***

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

VILLAGE OF SOUTH SALEM  
ROSS COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)

7. **Defined Benefit Pension Plans**

***Ohio Public Employees Retirement System***

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2016.

8. **Postemployment Benefits**

OPERS offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016.

9. **Debt**

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
United States Department of Agriculture Bond	\$454,700	5%
Total	<u>\$454,700</u>	

The Village of South Salem in 2002 issued 40 year bonds thru USDA for the construction of a gravity fed collection pond sewer system. Residents are assessed a monthly charge to operate the system and retire the debt.

The sewer revenue bond covenant requires the Village to establish and fund a debt service reserve fund. The fund is included in the Enterprise Funds on the accompanying financial statements. The balance in the fund at December 31, 2016 is \$32,508.

***Amortization***

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

VILLAGE OF SOUTH SALEM  
ROSS COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016  
(Continued)

9. Debt (Continued)

Year ending December 31:	<u>USDA Bond</u>
2017	\$30,779
2018	30,842
2019	30,782
2020	30,802
2021	30,698
2022-2026	153,984
2027-2031	153,997
2032-2036	153,950
2037-2041	154,011
2042	31,197
Total	<u><u>\$801,042</u></u>



# Dave Yost • Auditor of State

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

Village of South Salem  
Ross County  
2997 Church Street  
South Salem, Ohio 45681

To the Council Members:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of South Salem, Ross County, (the Village) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated November 19, 2018 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

### ***Compliance and Other Matters***

As part of reasonably assuring whether the Village'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, opining 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

November 19, 2018



**VILLAGE OF SOUTH SALEM  
ROSS COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2017 AND 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2017-001**

**MATERIAL WEAKNESS**

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

We noted the following conditions related to the Village's accounting system in 2016:

- Charges for Services receipts were overstated and Special Assessments receipts were understated by \$12,342 in the Sewer Operation Fund.
- Unassigned Fund Balance was overstated and the Assigned Fund Balance was understated by \$80,362 in the General Fund.

We noted the following conditions related to the Village's accounting system in 2017:

- Charges for Services receipts were overstated and Special Assessments receipts were understated by \$10,375 in the Sewer Operation Fund.
- A voided check in the amount of \$249 originally paid from the Sewer Operation Fund was incorrectly posted as a Miscellaneous receipt in the General Fund.
- A reimbursement was posted to the wrong fund causing Miscellaneous receipts to be overstated in the General Fund and Miscellaneous receipts to be understated in the Sewer Operation Fund by \$1,975.
- A sewer deposit was posted to the wrong account and fund causing Miscellaneous receipts to be overstated in the General Fund and Charges for Services receipts to be understated in the Sewer Operation Fund by \$2,880.
- Unassigned Fund Balance was overstated and the Assigned Fund Balance was understated by \$78,748 in the General Fund.

The accompanying financial statements and the Village's accounting system were corrected for these errors.

Failure to accurately post and report transactions could result in material errors in the Village's financial statements. It reduces the Village's ability to monitor financial activity and to make sound decisions which effect the overall available cash positions of the Village.

The Village should accurately record financial transactions.

**Officials' Response:**

A response was not received from the Officials regarding the above finding.

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# Dave Yost • Auditor of State

**VILLAGE OF SOUTH SALEM**

**ROSS 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  
DECEMBER 13, 2018**