



**Auditor of State
Betty Montgomery**

**SALEM TOWNSHIP
WARREN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Salem Township
Warren County
P.O. Box 171
Morrow, Ohio 45152

To the Board of Trustees:

We have audited the accompanying financial statements of Salem Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 the Township as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management and the Board and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 6, 2003

**SALEM TOWNSHIP
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Non-Expendable Trust</u>	
Cash Receipts:					
Local Taxes	\$65,720	\$472,955	\$0	\$0	\$538,675
Intergovernmental	59,651	146,743	0	0	206,394
Special Assessments	0	3,501	0	0	3,501
Licenses, Permits, and Fees	0	23,625	0	0	23,625
Earnings on Investments	9,537	2,504	0	0	12,041
Other Revenue	9,734	60,329	0	1,683	71,746
Total Cash Receipts	<u>144,642</u>	<u>709,657</u>	<u>0</u>	<u>1,683</u>	<u>855,982</u>
Cash Disbursements:					
Current:					
General Government	191,222	113,016	0	0	304,238
Public Safety	453	192,544	0	0	192,997
Public Works	2,466	84,678	0	0	87,144
Health	22,072	32,008	0	0	54,080
Miscellaneous	0	1,658	0	1,375	3,033
Debt Service:					
Redemption of Principal			22,942	0	22,942
Interest and Fiscal Charges			5,552	0	5,552
Capital Outlay	7,672	61,535	0	0	69,207
Total Cash Disbursements	<u>223,885</u>	<u>485,439</u>	<u>28,494</u>	<u>1,375</u>	<u>739,193</u>
Total Receipts Over/(Under) Disbursements	<u>(79,243)</u>	<u>224,218</u>	<u>(28,494)</u>	<u>308</u>	<u>116,789</u>
Other Financing Receipts and (Disbursements):					
Transfers-In		0	28,494	0	28,494
Transfers-Out	0	(28,494)	0	0	(28,494)
Other Sources	0	27,000	0	0	27,000
Total Other Financing Receipts/(Disbursements)	<u>0</u>	<u>(1,494)</u>	<u>28,494</u>	<u>0</u>	<u>27,000</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(79,243)</u>	<u>222,724</u>	<u>0</u>	<u>308</u>	<u>143,789</u>
Fund Cash Balances, January 1	<u>253,680</u>	<u>547,253</u>	<u>0</u>	<u>45,535</u>	<u>846,468</u>
Fund Cash Balances, December 31	<u>\$174,437</u>	<u>\$769,977</u>	<u>\$0</u>	<u>\$45,843</u>	<u>\$990,257</u>
Reserve for Encumbrances, December 31	<u>\$43,788</u>	<u>\$166,619</u>	<u>\$0</u>	<u>\$0</u>	<u>\$210,407</u>

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

**SALEM TOWNSHIP
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL AND NONEXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Non-Expendable Trust</u>	
Cash Receipts:					
Local Taxes	\$63,807	\$240,924	\$0	\$0	\$304,731
Intergovernmental	127,041	113,038	0	0	240,079
Special Assessments	0	2,639	0	0	2,639
Licenses, Permits, and Fees	0	22,700	0	0	22,700
Earnings on Investments	24,760	6,199	0	0	30,959
Other Revenue	3,692	25,447	0	2,343	31,482
Total Cash Receipts	<u>219,300</u>	<u>410,947</u>	<u>0</u>	<u>2,343</u>	<u>632,590</u>
Cash Disbursements:					
Current:					
General Government	130,639	112,492	0	0	243,131
Public Safety	454	26,870	0	0	27,324
Public Works	2,775	98,286	0	0	101,061
Health	23,023	23,623	0	0	46,646
Miscellaneous	0	942	0	1,470	2,412
Debt Service:					
Redemption of Principal	0	0	22,942	0	22,942
Interest and Fiscal Charges	0	0	6,663	0	6,663
Capital Outlay	47,821	93,385	0	0	141,206
Total Cash Disbursements	<u>204,712</u>	<u>355,598</u>	<u>29,605</u>	<u>1,470</u>	<u>591,385</u>
Total Receipts Over/(Under) Disbursements	<u>14,588</u>	<u>55,349</u>	<u>(29,605)</u>	<u>873</u>	<u>41,205</u>
Other Financing Receipts and (Disbursements):					
Transfers-In			25,317		25,317
Transfers-Out	0	(25,317)	0	0	(25,317)
Other Sources	3,584	8,100		43,500	55,184
Total Other Financing Receipts/(Disbursements)	<u>3,584</u>	<u>(17,217)</u>	<u>25,317</u>	<u>43,500</u>	<u>55,184</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>18,172</u>	<u>38,132</u>	<u>(4,288)</u>	<u>44,373</u>	<u>96,389</u>
Fund Cash Balances, January 1	<u>235,508</u>	<u>509,120</u>	<u>4,288</u>	<u>1,162</u>	<u>750,078</u>
Fund Cash Balances, December 31	<u>\$253,680</u>	<u>\$547,252</u>	<u>\$0</u>	<u>\$45,535</u>	<u>\$846,467</u>
Reserve for Encumbrances, December 31	<u>\$1,094</u>	<u>\$2,500</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,594</u>

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

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit, and municipal bonds are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to 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 and Bridge Fund

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

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(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.

Fire District Fund

This fund receives proceeds from the property tax fire levy for providing fire protection to Township residents.

3. Debt Service Fund

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness.

4. Fiduciary Funds (Trust Funds)

These funds are used to account for resources restricted by legally binding trust agreements. The Township had the following significant fiduciary funds:

Cemetery Bequest

This is a non-expendable trust fund used for the Township cemetery.

Scheurer Trust

This is a non-expendable trust fund used for the Township cemetery.

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. 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.

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 encumber all commitments required by Ohio law. However, there were no material unrecorded outstanding encumbrances at December 31, 2002 and 2001.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposits	\$157,083	\$73,348
Certificates of deposit	433,500	33,500
Total deposits	590,583	106,848
Municipal Bond	10,000	10,000
STAR Ohio	389,674	729,619
Total investments	399,674	739,619
Total deposits and investments	\$990,257	\$846,467

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by securities specifically pledged by the financial institution to the Township.

Investments: Municipal bonds are evidenced by securities held in physical form by the Township. Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$144,201	\$144,642	\$441
Special Revenue	736,529	736,657	128
Debt Service	28,494	28,494	0
Fiduciary	1,683	1,683	0
Total	<u>\$910,907</u>	<u>\$911,476</u>	<u>\$569</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$396,787	\$267,673	\$129,114
Special Revenue	1,281,282	680,552	600,730
Debt Service	28,494	28,494	0
Fiduciary	3,718	1,375	2,343
Total	<u>\$1,710,281</u>	<u>\$978,094</u>	<u>\$732,187</u>

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$221,650	\$222,884	\$1,234
Special Revenue	417,790	419,047	1,257
Debt Service	25,317	25,317	0
Fiduciary	2,343	45,843	43,500
Total	<u>\$667,100</u>	<u>\$713,091</u>	<u>\$45,991</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$393,932	\$205,806	\$188,126
Special Revenue	884,457	382,461	501,996
Debt Service	29,604	29,605	(1)
Fiduciary	2,762	1,470	1,292
Total	<u>\$1,310,755</u>	<u>\$619,342</u>	<u>\$691,413</u>

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. PROPERTY TAX

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

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, 2002 was as follows:

	Principal	Interest Rate
Fire Equipment Acquisition Notes	\$91,768	4.84%

Fire Equipment Acquisition Notes were issued in 1998 to finance the purchase of a new fire truck. The notes are collateralized solely by the Township's taxing authority.

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

	Fire Truck Acquisition Notes
Year ending December 31:	
2003	\$27,384
2004	26,273
2005	25,163
2006	24,052
Total	\$102,872

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. RETIREMENT SYSTEMS

The Township's certified Fire Fighters belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, members of OP&F participants contributed 10% of their wages. The Township contributed an amount equal to 24% of their wages to OP&F. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2001 and 2002. The Township has paid all contributions required through December 31, 2002.

7. RISK MANAGEMENT

Commercial Insurance

The Township has obtained commercial insurance for the following risks:

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Salem Township
Warren County
P.O. Box 171
Morrow, Ohio 45152

To the Board of Trustees:

We have audited the accompanying financial statements of Salem Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated May 6, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the schedule of findings as item 2002-40483-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Township in a separate letter dated May 6, 2003.

Salem Township
Warren County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management and the Board of Trustees, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 6, 2003

**SALEM TOWNSHIP
WARREN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-40483-001

Noncompliance

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure 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 encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This Section also provides two exceptions to the above requirements:

- A. Then and Now Certificate – If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- B. If the amount involved is less than \$1,000, the Clerk-Treasurer may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

Twenty-two percent of the Township's expenditures tested were not properly certified or encumbered prior to incurring the obligation. We recommend that the Township properly utilize the encumbrance method of accounting by certifying funds on purchase orders. Failure to properly certify funds could result in overspending of Township funds.



**Auditor of State
Betty Montgomery**

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SALEM TOWNSHIP

WARREN 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 29, 2003**