



**Auditor of State
Betty Montgomery**

**SALEM TOWNSHIP
JEFFERSON COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Salem Township
Jefferson County
205 Westfall Lane
Richmond, Ohio 43944

To the Township Trustees:

We have audited the accompanying financial statements of the Salem Township, Jefferson 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 *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.

The Township's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code §117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe that our audit provides a reasonable basis for our opinion.

As described 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 Salem Township, Jefferson County, Ohio as of December 31, 2004 and 2003, 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 March 10, 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 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.

Salem Township
Jefferson County
Independent Accountant's Report
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This report is intended solely for the information and use of the audit committee, management, Township Trustees 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

March 10, 2005

SALEM TOWNSHIP
JEFFERSON 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**

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Non- Expendable Trust</u>	
Cash Receipts:				
Local Taxes	\$16,957	\$132,265		\$149,222
Intergovernmental	39,630	104,588		144,218
Licenses, Permits, and Fees	6,589	7,700		14,289
Earnings on Investments	3,018	2,888	\$28	5,934
Other Revenue	90	8,728		8,818
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	66,284	256,169	28	322,481
Cash Disbursements:				
Current:				
General Government	61,451	12,956		74,407
Public Safety		65,181		65,181
Public Works	120	137,996		138,116
Health	5,140	7,600		12,740
Debt Service:				
Redemption of Principal		16,136		16,136
Interest and Fiscal Charges		4,204		4,204
Capital Outlay	260	167		427
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	66,971	244,240		311,211
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(687)	11,929	28	11,270
Other Financing Receipts and (Disbursements):				
Sale of Fixed Assets		653		653
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)		653		653
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(687)	12,582	28	11,923
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	61,747	166,849	3,583	232,179
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$61,060	\$179,431	\$3,611	\$244,102

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

**SALEM TOWNSHIP
JEFFERSON 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**

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Non- Expendable Trust	
Cash Receipts:					
Local Taxes	\$14,688	\$121,385			\$136,073
Intergovernmental	39,557	85,761	\$47,392		172,710
Licenses, Permits, and Fees	8,797	6,525			15,322
Earnings on Investments	2,506	2,304		\$43	4,853
Other Revenue	279	6,600			6,879
Total Cash Receipts	65,827	222,575	47,392	43	335,837
Cash Disbursements:					
Current:					
General Government	75,431				75,431
Public Safety		62,854			62,854
Public Works	225	147,583	47,392		195,200
Health	4,839	756			5,595
Debt Service:					
Redemption of Principal		47,695			47,695
Interest and Fiscal Charges		4,516			4,516
Capital Outlay		29,327			29,327
Total Cash Disbursements	80,495	292,731	\$47,392		420,618
Total Receipts Over/(Under) Disbursements	(14,668)	(70,156)		43	(84,781)
Other Financing Receipts and (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Notes		62,000			62,000
Sale of Fixed Assets	100	8,637			8,737
Total Other Financing Receipts/(Disbursements)	100	70,637			70,737
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(14,568)	481		43	(14,044)
Fund Cash Balances, January 1	76,315	166,368		3,540	246,223
Fund Cash Balances, December 31	\$61,747	\$166,849		\$3,583	\$232,179
Reserve for Encumbrances, December 31		\$3,536			3,536

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

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**SALEM TOWNSHIP
JEFFERSON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Salem Township, Jefferson County, (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 and fire protection services. The Township contracts with the Richmond, Springfield and Unionport Volunteer Fire Departments to provide fire protection 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 deposits are valued at cost.

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:

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

**SALEM TOWNSHIP
JEFFERSON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Road and Bridge Fund – This fund receives property tax money to construct, maintain and repair Township roads and bridges.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project fund:

Issue II Fund - The Township received a grant from the State of Ohio to repair Township roads.

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 fund:

Cemetery Bequest Fund - This fund receives interest earned on money received to maintain the cemetery within the Township.

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2004 and 2003 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.

**SALEM TOWNSHIP
JEFFERSON COUNTY**

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

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:

	2004	2003
Demand deposits	\$110,902	\$98,979
Certificates of deposit	133,200	133,200
Total Deposits	\$244,102	\$232,179

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	\$66,791	\$66,284	(\$507)
Special Revenue	268,173	256,822	(11,351)
Total	\$334,964	\$323,106	(\$11,858)

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$128,413	\$66,971	\$61,442
Special Revenue	412,827	244,240	168,587
Total	\$541,240	\$311,211	\$230,029

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$67,886	\$65,927	(\$1,959)
Special Revenue	298,919	293,212	(5,707)
Capital Projects	47,392	47,392	0
Total	\$414,197	\$406,531	(\$7,666)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$156,315	\$80,495	\$75,820
Special Revenue	400,377	296,267	104,110
Capital Projects	0	47,392	(47,392)
Total	\$556,692	\$424,154	\$132,537

Contrary to Ohio Revised Code Section §5705.41(B), expenditures exceeded appropriations.

**SALEM TOWNSHIP
JEFFERSON COUNTY**

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

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, 2004 was as follows:

	<u>Principal</u>	Interest Rate
General Obligation Notes	<u>\$84,270</u>	4.3-4.5%

A general obligation note was issued in 2003 to finance a new truck and to pay off a prior truck loan. Another general obligation note was issued to finance the purchase of a backhoe used for the Township cemetery. The loans are collateralized by the Township's taxing authority.

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

	<u>General Obligation Notes</u>
Year ending December 31:	
2005	\$19,627
2006	18,915
2007	18,203
2008	17,556
2009	11,631
2010-2014	9,054
Total	<u>\$94,986</u>

6. RETIREMENT SYSTEM

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

**SALEM TOWNSHIP
JEFFERSON COUNTY**

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

6. RETIREMENT SYSTEM (Continued)

Contribution rates are also prescribed by the Ohio Revised Code. For 2004 and 2003, PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2004 and 2003. The Township has paid all contributions required through December 31, 2004.

7. 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 \$100,000 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 most recent 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 lowest latest information available):

**SALEM TOWNSHIP
JEFFERSON COUNTY**

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

7. 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>

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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
Jefferson County
205 West Fall Lane
Richmond, Ohio 43944

To the Township Trustees:

We have audited the financial statements of Salem Township, Jefferson County, Ohio, (the Township) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated March 10, 2005, wherein we noted that the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Township's management dated March 10, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001. In a separate letter to the Township's management dated March 10, 2005, we reported other matters related to noncompliance we deemed immaterial.

Salem Township
Jefferson County
Independent Accountants' Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*

We intend this report solely for the information and use of the audit committee, management and the Board of Trustees. It is not intended for 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

March 10, 2005

**SALEM TOWNSHIP
JEFFERSON 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

Ohio Revised Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been properly appropriated.

The Township's expenditures exceeded appropriation in the following funds in 2003. The Township received money during the year that had not been appropriated at the time the permanent appropriation resolution was passed and the resolution was not subsequently amended:

Fund	Total Appropriations	Total Expenditures	Dollar Variance
Road and Bridge Fund	\$92,293	\$126,332	(\$34,039)
Issue II Fund	\$0	\$47,392	(\$47,392)

This situation leads to the increased possibility that deficit spending could occur.

The Township Clerk should monitor expenditures by comparing the expenditures to appropriations and should approach the Board of Trustees to request amendments to the original appropriations as necessary to guard against overspending. To prevent expenditures from exceeding appropriations, the Township Clerk should also consider withholding payment for those expenditures that would cause appropriations to be exceeded until an amendment could be approved.

**SALEM TOWNSHIP
JEFFERSON 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>
2002-41241-001	Revised Code 5705.41(B), failure to appropriate funds.	No	Re-issued as Finding 2004-001.
2002-41241-002	ORC 5705.41(D), failure to certify disbursements.	Yes	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

**SALEM TOWNSHIP
JEFFERSON 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 12, 2005**