



**Auditor of State
Betty Montgomery**

**SALEM TOWNSHIP
MUSKINGUM COUNTY**

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**Auditor of State
Betty Montgomery**

Salem Township
Muskingum County
6970 Leachman Road
Adamsville, Ohio 43802

To the Board of Township 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

September 14, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Salem Township
Muskingum County
6970 Leachman Road
Adamsville, Ohio 43802

To the Board of Township Trustees:

We have audited the accompanying financial statements of Salem Township, Muskingum County, Ohio (the Township), as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 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 years ended December 31, 2005 and 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, 2005 and 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Salem Township, Muskingum County, as of December 31, 2005 and 2004, 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, 2005 and 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 September 14, 2006, 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

September 14, 2006

**SALEM TOWNSHIP
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$7,217	\$26,516	\$33,733
Intergovernmental	17,804	92,061	109,865
Charges for Services	0	250	250
Earnings on Investments	2,603	400	3,003
Other Revenue	2,719	2,149	4,868
	<u>30,343</u>	<u>121,376</u>	<u>151,719</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	31,624	0	31,624
Public Safety	0	11,240	11,240
Public Works	687	89,314	90,001
Health	2,296	268	2,564
Debt Service:			
Redemption of Principal		8,250	8,250
Interest and Fiscal Charges		2,905	2,905
Capital Outlay	441	0	441
	<u>35,048</u>	<u>111,977</u>	<u>147,025</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(4,705)</u>	<u>9,399</u>	<u>4,694</u>
Other Financing Receipts/(Disbursements):			
Proceeds from Sale of Public Debt:			
Advances-In	2,800	6,400	9,200
Advances-Out	(2,400)	(6,800)	(9,200)
	<u>400</u>	<u>(400)</u>	<u>0</u>
Total Other Financing Receipts/(Disbursements)			
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(4,305)	8,999	4,694
Fund Cash Balances, January 1	<u>83,197</u>	<u>39,906</u>	<u>123,103</u>
Fund Cash Balances, December 31	<u>\$78,892</u>	<u>\$48,905</u>	<u>\$127,797</u>

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

**SALEM TOWNSHIP
MUSKINGUM COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$7,515	\$26,890	\$34,405
Intergovernmental	23,765	141,923	165,688
Earnings on Investments	1,717	252	1,969
Other Revenue	421	1,343	1,764
	<u>33,418</u>	<u>170,408</u>	<u>203,826</u>
Total Cash Receipts	<u>33,418</u>	<u>170,408</u>	<u>203,826</u>
Cash Disbursements:			
Current:			
General Government	35,764	0	35,764
Public Safety	0	11,363	11,363
Public Works	540	71,379	71,919
Health	898	0	898
Capital Outlay	11,283	101,863	113,146
	<u>48,485</u>	<u>184,605</u>	<u>233,090</u>
Total Cash Disbursements	<u>48,485</u>	<u>184,605</u>	<u>233,090</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(15,067)</u>	<u>(14,197)</u>	<u>(29,264)</u>
Other Financing Receipts/(Disbursements):			
Proceeds from Sale of Public Debt:			
Advances-In	5,000	5,000	10,000
Advances-Out	(5,000)	(5,000)	(10,000)
	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Receipts/(Disbursements)	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(15,067)	(14,197)	(29,264)
Fund Cash Balances, January 1	<u>98,264</u>	<u>54,103</u>	<u>152,367</u>
Fund Cash Balances, December 31	<u>\$83,197</u>	<u>\$39,906</u>	<u>\$123,103</u>

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

**SALEM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Salem Township, Muskingum 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 general government services, including road and bridge maintenance (public works). The Township contracts with the Adamsville Volunteer Fire Department for 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 the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when cash is received rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

The Township reports investments as assets and held investments, such as certificates of deposit, are recorded at cost. 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.

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 report 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:

**SALEM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, 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 canceled, and reappropriated in the subsequent year.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

**SALEM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2005	2004
Demand deposits	\$22,365	\$20,478
Certificates of deposit	105,432	102,625
Total deposits	\$127,797	\$123,103

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$30,530	\$30,343	(\$187)
Special Revenue	121,334	121,376	42
Total	\$151,864	\$151,719	(\$145)

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$38,999	\$35,048	\$3,951
Special Revenue	113,168	111,977	1,191
Total	\$152,167	\$147,025	\$5,142

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$32,620	\$33,418	\$798
Special Revenue	167,878	170,408	2,530
Total	\$200,498	\$203,826	\$3,328

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$52,244	\$48,485	\$3,759
Special Revenue	191,284	184,605	6,679
Total	\$243,528	\$233,090	\$10,438

**SALEM TOWNSHIP
MUSKINGUM COUNTY**

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

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.

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, 2005 was as follows:

	Principal	Interest Rate
Road Equipment Note	\$53,625	5%

The Township issued a road equipment note to finance the purchase of a new motor grader for use in constructing, maintaining, and repairing Township roads.

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

Year ending December 31:	Note Principal	Note Interest	Total
2006	\$8,250	\$2,503	\$10,753
2007	8,250	2,103	10,353
2008	8,250	1,707	9,957
2009	8,250	1,301	9,551
2010	8,250	901	9,151
2011-2012	12,375	601	12,976
Total	\$53,625	\$9,116	\$62,741

Debt principal outstanding at December 31, 2005 was \$53,625.

6. RETIREMENT SYSTEMS

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). PERS 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.

**SALEM TOWNSHIP
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

6. RETIREMENT SYSTEMS (Continued)

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, PERS members contributed 8.5% of their wages. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all contributions required through December 31, 2005.

7. RISK MANAGEMENT

The Township insures against injuries to employees through the Ohio Bureau of Workers Compensation.

The Township has obtained commercial insurance for coverage over the following risks:

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

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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
Muskingum County
6970 Leachman Road
Adamsville, Ohio 43802

To the Board of Trustees:

We have audited the financial statements of Salem Township, Muskingum County, Ohio (the Township, as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 14, 2006, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted 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 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 to be material weaknesses. In a separate letter to the Township's management dated September 14, 2006, we reported other matters involving internal control over financial reporting we did not deem to be 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 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Township's management dated September 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Salem Township,
Muskingum County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management and the Board of Township 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

September 14, 2006



**Auditor of State
Betty Montgomery**

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**SALEM TOWNSHIP
MUSKINGUM 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
OCTOBER 19, 2006**