

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



Mary Taylor, CPA
Auditor of State

Village Council
Village of West Salem
P. O. Box 256
West Salem, Ohio 44287

We have reviewed the *Independent Accountants' Report* of the Village of West Salem, Wayne County, prepared by Knox & Knox, CPAs, for the audit period January 1, 2005 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of West Salem is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

February 1, 2007

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VILLAGE OF WEST SALEM
WAYNE COUNTY

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KNOX & KNOX

Accountants and Consultants

Independent Accountants' Report

Village of West Salem
Wayne County
P. O. Box 256
West Salem, Ohio 44287

We have audited the accompanying financial statements of the governmental activities, the business-type activities each major fund and the aggregate remaining fund information of the Village of West Salem, Wayne County, Ohio (the Village), as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in note 1, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of West Salem, Wayne County, Ohio, as of December 31, 2005, and the respective changes in cash financial position and the respective budgetary comparison for the General and Street Maintenance and Repair Funds thereof for the year then ended in conformity with the basis of accounting Note 1 describes.

For the year ended December 31, 2005, the Village revised its financial presentation comparable to the requirements of Governmental accounting Standard No. 34, *Basic Financial Statements—Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2006, 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. 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

KNOX & KNOX

Orrville, Ohio
July 25, 2006

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

This discussion and analysis of the Village of West Salem's (also referred to as the Government's) financial performance provides an overall review of the Government's financial activities for the year ended December 31, 2005, within the limitations of the Government's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Government's financial performance.

HIGHLIGHTS

Key highlights for 2005 are as follows:

The Government's general receipts are primarily property and income taxes and intergovernmental revenues. These receipts represent respectively 11, 35 and 34 percent of the total cash received for governmental activities during the year. Because the Village has assumed responsibility for the operation of the former West Salem Elementary School building, now known as the School House Community Campus, another major source of receipts is tenant lease payments. Lease payments represent 12 percent of the General Fund Revenue. Property and income tax receipts for 2005 changed very little compared to 2004 as development within the Government has slowed. Receipts for the leases increased during 2005, because this year is the first full year for which lease payments were collected and additional tenants have been added.

The operation of the School House Community Campus is accounted for under the Governmental Funds. During 2005 the School House Community Campus was operated as another department of the Village. Steps are being taken to establish a board which will oversee the operation of the facility.

The water operation, one of the Government's business-type activities, lost money during the year. The sewer operation realized a small gain during the year. In preparation for the construction of a new water plant and the development of its new well field, The Village during 2005 has authorized the commencement of a pilot study for the proposed nanofiltration system of treatment.

The final payment on the Sanitary Sewer System Revenue Bond issue of 1965 was made during this year. The unexpended fund balance was transferred to the Bond Retirement Fund.

USING THE BASIC FINANCIAL STATEMENTS

This annual report is presented in a format consistent with the presentation requirements of Government Accounting Standards Board Statement No. 34, as applicable to the Government's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Government as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Government as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Government has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is other than generally accepted accounting principles. Under the Government's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

REPORTING THE GOVERNMENT AS A WHOLE

The statement of net assets and the statement of activities reflect how the Government did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Government at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Government's general receipts.

These statements report the Government's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Government's financial health. Over time, increases or decreases in the Government's cash position is one indicator of whether the Government's financial health is improving or deteriorating. When evaluating the Government's financial condition, you should also consider other non-financial factors as well such as the Government's property tax base, the condition of the Government's capital assets and infrastructure, the extent of the Government's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the Government into two types of activities:

Governmental activities. Most of the Government's basic services are reported here, including police, fire, streets and parks. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Business-type activity. The Government has two business-type activities, the provision of water, and of sewer. Business-type activities are financed by a fee charged to the customers receiving the service.

REPORTING THE GOVERNMENT'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the Government's major funds—not the Government as a whole. The Government establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Government are split into three categories: government, proprietary and fiduciary.

Governmental Funds - Most of the Government's activities are reported in governmental funds. The Governmental Fund financial statements provide a detailed view of the Government's governmental operations and the basic services it provides. Governmental Fund information helps determine whether there are more or less financial resources that can be spent to finance the government's programs. The Government's significant Governmental Funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Government's only major governmental fund is the General Fund. The programs reported in the Governmental Funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the Governmental Fund financial statements.

Proprietary Funds - When the Government charges customers for the services it provides, these services are generally reported in Proprietary Funds. When the services are provided to the general public, the activity is reported as an Enterprise Fund. The Government has four Enterprise Funds, the Water, Sewer, Utility Deposit, and Debt Service Reserve Fund. The Debt Service Reserve Fund was closed this year and the balance remaining in the fund was transferred to the Bond Retirement Fund.

Fiduciary Funds - Fiduciary Funds are used to account for resources held for the benefit of parties outside the Government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Government's programs. The Village does not have fiduciary funds.

THE VILLAGE AS A WHOLE

Table 1 provides a summary of the Government's net assets for 2005 compared to 2004 on a modified cash basis.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets						
Cash and Cash Equivalents	\$267,920	\$311,364	\$181,921	\$163,556	\$449,840	\$474,920
 Total Assets	<u>\$267,920</u>	<u>\$311,364</u>	<u>\$181,921</u>	<u>\$163,556</u>	<u>\$449,840</u>	<u>\$474,920</u>
Net Assets						
Restricted for:						
Debt Service	\$101,034	\$111,182			\$101,034	\$111,182
Capital Outlay	26,365	87,065			26,365	87,065
Other Purposes	140,520	113,116	181,921	163,556	322,441	276,672
Unrestricted						
 Total Net Assets	<u>\$267,919</u>	<u>\$311,363</u>	<u>\$181,921</u>	<u>\$163,556</u>	<u>\$449,840</u>	<u>\$474,919</u>

As mentioned previously, net assets of governmental activities decreased \$25,079.44 or 5.3 percent during 2005. The primary reasons contributing to the decreases in cash balances are as follows:

- Unanticipated slow growth in local tax receipts. The assessed valuation has remained stagnate at \$17,353,334 over the past several years. Local wages have also not increased, resulting in little change in income tax receipts compared to last year.
- Increases in salaries ranging from 2.8% to 3.0%.
- The Government had several streets that were in very poor condition that needed extensive repairs costing in excess of \$20,000.
- In 2005, the Government made a balloon payment on debt for the last sanitary sewer improvement in the amount of \$55,000.

Table 2 reflects the changes in net assets in 2005. Since the Government did not prepare financial statements in this format for 2004, a comparative analysis to government-wide data has not been presented. In future years, when prior year information available, a comparative analysis will be presented.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Changes in Net Assets			
	<u>Governmental Activities 2005</u>	<u>Business-Type Activities 2005</u>	<u>Total 2005</u>
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$79,766	\$494,786	\$574,552
Operating Grants and Contributions	71,222		71,222
Capital Grants and Contributions			
Total Program Receipts	<u>150,988</u>	<u>494,786</u>	<u>645,774</u>
General Receipts:			
Property and Other Local Taxes	61,482		61,482
Income Taxes	182,371		182,371
Grants and Entitlements Not Restricted to Specific Programs	103,052		103,052
Interest	12,752		12,752
Miscellaneous	107,714	2,088	109,802
Total General Receipts	<u>467,371</u>	<u>2,088</u>	<u>469,459</u>
Total Receipts	<u>618,359</u>	<u>496,874</u>	<u>1,115,233</u>
Disbursements:			
General Government	181,093		181,093
Security of Persons and Property	108,364		108,364
Public Health Services	28,277		28,277
Leisure Time Activities	4,928		4,928
Economic Development	6,756		6,756
Basic Utilities		354,930	354,930
Transportation	95,875		95,875
Capital Outlay	59,539		59,539
Principal Retirement	256,784		256,784
Interest and Fiscal Charges	43,911		43,911
Water			
Total Disbursements	<u>785,527</u>	<u>354,930</u>	<u>1,140,457</u>
Excess (Deficiency) Before Transfers	(167,168)	141,944	(25,224)
Transfers	<u>123,579</u>	<u>(123,579)</u>	
Increase (Decrease) in Net Assets	(43,589)	18,365	(25,224)
Net Assets, January 1, 2005	<u>311,509</u>	<u>163,556</u>	<u>475,065</u>
Net Assets, December 31, 2005	<u>\$267,920</u>	<u>\$181,921</u>	<u>\$449,841</u>

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

Program receipts represent 24.8 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, cemetery fees; developer fees, court fines and costs; miscellaneous permit and tap fees; and School House Community Campus lease payments.

General receipts represent 75.2 percent of the Government's total receipts, and of this amount, over 51.9 percent are local taxes. State and federal grants and entitlements make up much of the balance of the Government's general receipts (22.2 percent). The Government issued a note which represents 21.5 percent of the general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Government and the support services provided for the other Government Activities. These include the costs of council, and the auditor, treasurer, and income tax departments, as well as Mayor's Court and the cost associated with the School House Community Campus. Since these costs do not represent direct services to residents, we have limited these costs to 23 percent of General Fund unrestricted receipts.

Security of Persons and Property are the costs of police protection; Public Health Services is the health department; Leisure Time Activities are the costs of maintaining the parks and playing fields; the Economic Development Department promotes the area to developers and the Government to industry and commerce as well as working with other governments in the area to attract new business; and Transportation is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Government. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for transportation and security of persons and property, which account for 12.2 and 13.8 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 23 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Government that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

(Table 3)

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005
General Government	\$181,093	\$113,426
Security of Persons and Property	108,364	108,364
Public health Services	28,277	19,826
Leisure Time Activities	4,928	4,928
Economic Development	6,756	4,211
Basic Utilities		
Transportation	95,875	23,550
Capital Outlay	59,539	59,539
Principal Retirement	256,784	256,784
Interest and Fiscal Charges	43,911	43,911
Total Expenses	<u>\$785,527</u>	<u>\$634,539</u>

The dependence upon property and income tax receipts is apparent as over 36.7 percent of governmental activities are supported through these general receipts.

Business-type Activities

The water operation of the Government is relatively small and routinely reports receipts and cash disbursements that are relatively equal. The Village purchases water from the Rural Lorain County Water Authority, LaGrange, Ohio. The Village has established a new well field and the conclusion of 2005 was preparing to begin a pilot study for the treatment of the water.

The sanitary sewer operation of the Government is also relatively small and routinely reports receipts and cash disbursements that are relatively equal. There was no new construction or engineering fees during 2005, which has allowed the fund to recover from prior year expenditures in excess of receipts. The Village continues to search for sources of infiltration and at the conclusion heard the first reading of legislation declaring the necessity to levy a special assessment for repairs of a suspected source of infiltration. The Village is under EPS orders to reduce its inflow and infiltration.

THE GOVERNMENT'S FUNDS

Total governmental funds had receipts of \$741,937 and disbursements of \$785,527. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$27,258 in spite of increased costs for salaries and benefits; not achieving anticipated growth in income and property tax receipts; and unexpectedly high heating and gasoline costs.

General Fund receipts were more than disbursements by \$23,086 indicating that the General Fund is controlling its spending. It was the recommendation of the administration that a reduction in disbursements was preferable to requesting additional funds from the taxpayers. Some of these

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

reductions included cuts in leisure time activity expenditures and reductions in office expenditures. These cuts will not eliminate the need for additional funds (or additional cuts) in the future if the growth in property and income taxes remains stagnant.

The Street Fund receipts were less than disbursement by \$10,148 indicating that the Street Fund is in a deficit spending situation. The administration has reduced expenditures by the elimination of one part-time position.

GENERAL FUND BUDGETING HIGHLIGHTS

The Government's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, the Government amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were below original budgeted receipts due to unexpected slow growth in tax receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$417,366.95 while actual disbursements were \$354,757.88. The Government kept spending less than budgeted amounts as demonstrated in the report. The result is the increase in the General Fund balance of \$27,258.83 for 2005.

Final disbursements for the Street Fund were budgeted at \$86,618.61 while actual disbursements were \$81,971.49. As noted above, the Street Fund balance decreased by \$10,148.12.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Government does not currently keep track of its capital assets and infrastructure.

Debt

At December 31, 2005, the Government's outstanding debt included \$ 100,000 in general obligation notes issued for improvements to the sanitary sewer system, and \$831,576.89 in Ohio Water Development Authority and Ohio Public Works Commission loans for utility construction. For further information regarding the Government's debt, refer to Notes 12 and 13 to the basic financial statements.

CURRENT ISSUES

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funds. We rely heavily on local taxes and have very little industry to support the tax base. Our financial forecast predicts a deficit for 2007; therefore, the finance committee and the administration implemented a strategy to delay the deficit. This plan became effective for 2006. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Government. The 2006 appropriations have been reduced wherever possible.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

CONTACTING THE VILLAGE'S MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Government's finances and to reflect the Government's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Patricia Foradori, Clerk-Treasurer, Village of West Salem, 27 S. Main Street, P. O. Box 256, West Salem, Ohio 44287.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2005**

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$267,919.94	\$181,920.51	\$449,840.45
Total Assets	<u>\$267,919.94</u>	<u>\$181,920.51</u>	<u>\$449,840.45</u>
Net Assets			
Restricted for:			
Debt Service	26,365.49		26,365.49
Other Purposes	101,034.36		101,034.36
Unrestricted	140,520.09	181,920.51	322,440.60
Total Net Assets	<u>\$267,919.94</u>	<u>\$181,920.51</u>	<u>\$449,840.45</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR YEAR ENDED DECEMBER 31, 2005**

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities						
Security of Persons and Property	\$108,363.97			(\$108,363.97)		(\$108,363.97)
Public Health Services	28,277.14	\$8,451.00		(19,826.14)		(19,826.14)
Leisure Time Activities	4,927.72			(4,927.72)		(4,927.72)
Community Environment	6,755.97	2,545.00		(4,210.97)		(4,210.97)
Transportation	95,875.22	1,103.37	\$71,221.57	(23,550.28)		(23,550.28)
General Government	181,092.69	67,666.21		(113,426.48)		(113,426.48)
Capital Outlay	59,539.16			(59,539.16)		(59,539.16)
Debt Service:						
Principal	256,784.38			(256,784.38)		(256,784.38)
Interest	43,910.85			(43,910.85)		(43,910.85)
Other						
Total Governmental Activities	<u>785,527.10</u>	<u>79,765.58</u>	<u>71,221.57</u>	<u>(634,539.95)</u>		<u>(634,539.95)</u>
Business-Type Activities						
Water	245,373.61	252,317.90			6,943.99	6,943.99
Sewer	107,856.11	236,542.91			128,686.80	128,686.80
Sewer Debt Service Reserve						
Enterprise Deposit Fund	1,700.00	5,925.00			4,225.00	4,225.00
Total Business-type Activities	<u>354,929.72</u>	<u>494,785.81</u>			<u>139,855.79</u>	<u>139,855.79</u>
Total Primary Government	<u>\$1,140,456.82</u>	<u>\$574,551.39</u>	<u>\$71,221.57</u>	<u>(\$634,539.95)</u>	<u>\$139,855.79</u>	<u>(\$494,684.16)</u>
General Receipts						
Property Taxes				50,777.03		50,777.03
Municipal Income Taxes				182,370.85		182,370.85
Other Taxes				7,974.96		7,974.96
Grants Entitlements not Restricted to Specific Programs				103,052.37		103,052.37
Sale of Notes				100,000.00		100,000.00
Other Debt Proceeds				2,730.29		2,730.29
Earnings on Investments				12,752.40		12,752.40
Miscellaneous				7714.26	2,087.63	9,801.89
Total General Receipts				<u>467,372.16</u>	<u>2,087.63</u>	<u>469,459.79</u>
Transfers				123,578.56	(123,578.56)	
Total General Receipts, Special & Extraordinary Items, Transfers and Advances				<u>590,950.72</u>	<u>(121,490.93)</u>	<u>469,459.79</u>
Change in Net Assets				(43,589.23)	18,364.86	(25,224.37)
Net Assets Beginning of Year				311,509.17	163,555.65	475,064.82
Net Assets End of Year				<u>\$267,919.94</u>	<u>\$181,920.51</u>	<u>\$449,840.45</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
FOR YEAR ENDED DECEMBER 31, 2005**

	General	Street Construction Maintenance and Repair	General Obligation Bond Retirement	OWDA Debt Service	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$140,520.09	\$23,117.47	\$2,428.67	\$23,648.08	\$78,205.63	\$267,919.94
Investments						
Total Assets	<u>\$140,520.09</u>	<u>\$23,117.47</u>	<u>\$2,428.67</u>	<u>\$23,648.08</u>	<u>\$78,205.63</u>	<u>\$267,919.94</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances	\$28,811.48	\$1,579.74			\$3,221.21	\$33,612.43
Unreserved						
Undesignated (Deficit), Reported In:						
General Fund	111,708.61					111,708.61
Special Revenue Funds		21,537.73			74,695.68	96,233.41
Debt Service Fund			\$2,428.67	\$23,648.08	288.74	26,365.49
Capital Projects Funds						
Permanent Fund						
Total Fund Balances	<u>\$140,520.09</u>	<u>\$23,117.47</u>	<u>\$2,428.67</u>	<u>\$23,648.08</u>	<u>\$78,205.63</u>	<u>\$267,919.94</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	General	Street Construction Maintenance and Repair	General Obligation Bond Retirement	OWDA Debt Service	Other Governmental Funds	Total
Receipts:						
Property and Other Local Taxes	\$40,028.02				\$18,723.97	\$58,751.99
Municipal Income Tax	182,370.85					182,370.85
Intergovernmental	58,623.21	62,192.31			53,458.42	174,273.94
Special Assessments		803.37			2,730.29	3,533.66
Charges for Services	46,200.00	300.00			8,451.00	54,951.00
Fines, Licenses, and Permits	21,371.21				1,740.00	23,111.21
Earnings on Investments	10,092.40	273.74		1,773.12	613.14	12,752.40
Miscellaneous	7,031.33	1,115.80			467.13	8,614.26
Total Receipts	365,717.02	64,685.22		1,773.12	86,183.95	518,359.31
Disbursements:						
Current:						
Security of Persons and Property	108,363.97					108,363.97
Public Health Services	4,281.27				23,995.87	28,277.14
Leisure Time Activities	4,927.72					4,927.72
Community Environment	6,755.97					6,755.97
Basic Utility Services						
Transportation		80,391.75			15,483.47	95,875.22
General Government	180,818.23				274.46	181,092.69
Capital Outlay	10,364.76				49,174.40	59,539.16
Debt Service:						0.00
Principal Retirement	10,434.48		155,000.00	81,082.76	10,267.14	256,784.38
Interest and Fiscal Charges			3,921.50	38,425.96	1,563.39	43,910.85
Total Disbursements	325,946.40	80,391.75	158,921.50	119,508.72	100,758.73	785,527.10
Excess Receipts Over/(Under) Disbursements	39,770.62	(15,706.53)	(158,921.50)	(117,735.60)	(14,574.78)	(267,167.79)
Other Financing Sources (Uses)						
Sale of Notes			100,000.00			100,000.00
Transfers-In		10,000.00	61,348.78	121,332.00	1,218.40	193,899.18
Transfers-Out	(12,511.79)				(57,808.83)	(70,320.62)
Advances-In			954.92			954.92
Advances-Out			(954.92)			(954.92)
Total Other Financing Sources (Uses)	(12,511.79)	10,000.00	161,348.78	121,332.00	(56,590.43)	223,578.56
Net Change in Fund Balances	27,258.83	(5,706.53)	2,427.28	3,596.40	(71,165.21)	(43,589.23)
Fund Balances Beginning of Year	113,261.26	28,824.00	1.39	20,051.68	149,370.84	311,509.17
Fund Balances End of Year	<u>\$140,520.09</u>	<u>\$23,117.47</u>	<u>\$2,428.67</u>	<u>\$23,648.08</u>	<u>\$78,205.63</u>	<u>\$267,919.94</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Property and Other Local Taxes	\$35,000.00	\$35,000.00	\$40,028.02	\$5,028.02
Municipal Income Tax	180,000.00	180,000.00	182,370.85	2,370.85
Intergovernmental	53,301.09	53,301.09	58,623.21	5,322.12
Charges for Services	45,000.00	45,000.00	46,200.00	1,200.00
Fines, Licenses, and Permits	17,350.00	17,350.00	21,371.21	4,021.21
Earnings on Investments	5,000.00	5,000.00	10,092.40	5,092.40
Miscellaneous	2,250.00	2,250.00	7,031.33	4,781.33
Total Receipts	<u>337,901.09</u>	<u>337,901.09</u>	<u>365,717.02</u>	<u>\$27,815.93</u>
Disbursements:				
Current:				
Security of Persons and Property	131,596.97	136,052.66	112,312.86	\$23,739.80
Public Health Services	4,300.00	4,300.00	4,281.27	18.73
Leisure Time Activities	12,925.50	9,214.87	5,416.26	3,798.61
Community Environment	13,067.00	17,927.00	10,405.21	7,521.79
General Government	187,333.93	222,499.27	200,507.86	21,991.41
Capital Outlay	12,155.24	16,904.94	11,399.94	5,505.00
Debt Service:				
Principal Retirement	10,450.00	10,438.21	10,434.48	3.73
Interest and Fiscal Charges				
Total Disbursements	<u>371,828.64</u>	<u>417,336.95</u>	<u>354,757.88</u>	<u>62,579.07</u>
Excess Receipts Over/(Under) Disbursements	<u>(33,927.55)</u>	<u>(79,435.86)</u>	<u>10,959.14</u>	<u>90,395.00</u>
Other Financing Sources (Uses)				
Transfers-Out	<u>(12,500.00)</u>	<u>(12,511.79)</u>	<u>(12,511.79)</u>	
Total Other Financing Sources (Uses)	<u>(12,500.00)</u>	<u>(12,511.79)</u>	<u>(12,511.79)</u>	
Net Change in Fund Balances	(46,427.55)	(91,947.65)	(1,552.65)	90,395.00
Fund Balances Beginning of Year	101,760.52	101,760.52	101,760.52	
Prior Year Encumbrances Appropriated	<u>11,500.74</u>	<u>11,500.74</u>	<u>11,500.74</u>	
Fund Balances End of Year	<u>\$66,833.71</u>	<u>\$21,313.61</u>	<u>\$111,708.61</u>	<u>\$90,395.00</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
STREET CONSTRUCTION, MAINTENANCE AND REPAIR FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budget Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts:				
Intergovernmental	\$54,400.00	\$54,400.00	\$62,192.31	\$7,792.31
Charges for Services	500.00	500.00	300.00	(200.00)
Earnings on Investments	150.00	150.00	273.74	123.74
Miscellaneous	<u>800.00</u>	<u>800.00</u>	<u>1,115.80</u>	<u>315.80</u>
Total Receipts	<u>55,850.00</u>	<u>55,850.00</u>	<u>63,881.85</u>	<u>\$8,031.85</u>
Disbursements:				
Current:				
Transportation	80,617.85	86,618.61	81,971.49	\$4,647.12
Total Disbursements	<u>80,617.85</u>	<u>86,618.61</u>	<u>81,971.49</u>	<u>4,647.12</u>
Excess Receipts Over/(Under) Disbursements	<u>(24,767.85)</u>	<u>(30,768.61)</u>	<u>(18,089.64)</u>	<u>12,678.97</u>
Other Financing Sources (Uses)				
Transfers-In	<u>10,000.00</u>	<u>10,000.00</u>	<u>10,000.00</u>	
Total Other Financing Sources (Uses)	<u>10,000.00</u>	<u>10,000.00</u>	<u>10,000.00</u>	
Net Change in Fund Balances	(14,767.85)	(20,768.61)	(8,089.64)	12,678.97
Fund Balances Beginning of Year	27,339.39	27,339.39	27,339.39	
Prior Year Encumbrances Appropriated	<u>1,484.61</u>	<u>1,484.61</u>	<u>1,484.61</u>	
Fund Balances End of Year	<u>\$14,056.15</u>	<u>\$8,055.39</u>	<u>\$20,734.36</u>	<u>\$12,678.97</u>

See accompanying notes to the basic financial statements.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Water	Sewer	Enterprise Deposit Fund	Total Enterprise Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$60,570.86	\$91,252.20	\$30,097.45	\$181,920.51
Total Assets	\$60,570.86	\$91,252.20	\$30,097.45	\$181,920.51
Net Assets				
Unrestricted	\$60,570.86	\$91,252.20	\$30,097.45	\$181,920.51
Total Net Assets	\$60,570.86	\$91,252.20	\$30,097.45	\$181,920.51

See accompanying notes to the basic financial statements.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES
IN FUND NET ASSETS- MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Water	Sewer	Enterprise Deposit Fund	Other Enterprise Funds	Enterprise Total
Operating Receipts					
Charges for Services	<u>\$252,317.60</u>	<u>\$236,542.91</u>	<u>\$5,925.00</u>		<u>\$494,785.51</u>
Total Operating Receipts	<u>252,317.60</u>	<u>236,542.91</u>	<u>5,925.00</u>		<u>494,785.51</u>
Operating Disbursements					
Personal Services	51,053.32	48,333.22			99,386.54
Employee Fringe Benefits	11,189.54	20,441.60			31,631.14
Contractual Services	148,315.29	32,816.43			181,131.72
Supplies and Materials	6,987.48	6,200.20			13,187.68
Other			1,700.00		1,700.00
Total Operating Disbursements	<u>217,545.63</u>	<u>107,791.45</u>	<u>1,700.00</u>		<u>327,037.08</u>
Operating Income (Loss)	<u>34,771.97</u>	<u>128,751.46</u>	<u>4,225.00</u>		<u>167,748.43</u>
Non-Operating Receipts (Disbursements)					
Miscellaneous Receipts	234.76	1,852.87			2,087.63
Capital Outlay	(9,791.97)	(64.66)			(9,856.63)
Principal Payments	<u>(18,036.01)</u>				<u>(18,036.01)</u>
Total Non-Operating Receipts (Disbursements)	<u>(27,593.22)</u>	<u>1,788.21</u>			<u>(25,805.01)</u>
Income (Loss) Before Transfers and Advances	<u>7,178.75</u>	<u>130,539.67</u>	<u>4,225.00</u>		<u>141,943.42</u>
Capital Contributions					
Special Items					
Extraordinary Items					
Transfers-In	529.69	763.70			1,293.39
Transfers-Out		(121,332.00)		(3,539.95)	(124,871.95)
Advances-In	954.92				954.92
Advances-Out	<u>(954.92)</u>				<u>(954.92)</u>
Change in Net Assets	<u>7,708.44</u>	<u>9,971.37</u>	<u>4,225.00</u>	<u>(3,539.95)</u>	<u>18,364.86</u>
Net Assets Beginning of Year	<u>52,862.42</u>	81,280.83	<u>25,872.45</u>	<u>3,539.95</u>	<u>163,555.65</u>
Net Assets End of Year	<u>\$60,570.86</u>	<u>\$91,252.20</u>	<u>\$30,097.45</u>		<u>\$181,920.51</u>

See accompanying notes to the basic financial statements.

VILLAGE OF WEST SALEM
WAYNE COUNTY

STATEMENT FIDUCIARY NET ASSETS - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR YEAR ENDED DECEMBER 31, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$3,515.10</u>
Total Assets	<u><u>\$3,515.10</u></u>
Net Assets	
Restricted for:	
Other Purposes	<u>\$3,515.10</u>
Total Net Assets	<u><u>\$3,515.10</u></u>

See accompanying notes to the basic financial statements.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

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

NOTE 1 - REPORTING ENTITY

The Village of West Salem, Wayne County, (the Village) is a body of corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council elected at large for four-year terms. The Mayor is elected to a four-year term, serves as the President of Council and votes only to break a tie.

The reporting entity is comprised of the primary government.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general governmental services including water and sewer utilities, maintenance of Village roads and bridges, park operations, and police services.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its Enterprise Funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government, except for Fiduciary Funds. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

each of the Village's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or business-type activity is self-financing on a modified cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service funds are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from the exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

B. Fund Accounting

The Village uses fund accounting 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. Funds are used to segregate resources that are restricted as to use. The funds of the Village are divided into three categories, governmental, proprietary and fiduciary.

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. One Village major governmental fund is the General Fund. The General Fund is used to account for all financial resources, except those required to be accounted for 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

The Street Fund is another major fund. The Street Fund is used to account for all financial resources received from license and gasoline tax and its use is restricted to street maintenance and repair.

The Bond Retirement and OWDA Debt Service Funds are also major funds. Revenue for both is transferred from utility fund collections. The Bond Retirement this year received the balance of the Sanitary Sewer Mortgage Revenue Fund after all bonds from the original sewer plant construction were

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

paid. The proceeds from the 2005 note issue were credited to the Bond Retirement Fund. Debt service balances are restricted to the payment of Village obligations.

The other governmental funds of the Village account for grants and other resources whose use is restricted to a particulare purpose.

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary Funds are classified as either enterprise or internal service.

Enterprise Funds - Enterprise Funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major Enterprise Funds are the Water and Sewer Funds.

Water Fund - The Water Fund accounts for the provision of water to the residents and commercial users located within the Village.

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

Utility Deposit Fund - The utility deposit fund accounts for the residential and commercial users' deposits.

Internal Service Fund - Internal Service Funds account for services provided by one department of the Village to another on a cost-reimbursement basis. The Village does not have an Internal Service Fund.

Fiduciary Funds

Fiduciary Funds include pension trust funds, investment trust funds, private purpose trust funds, and agency funds, Trust funds are used to account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Village's own programs. The Village does not have a trust fund. Agency Funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village's Agency Funds account for unclaimed money and the collections and disbursements in Mayor's Court.

C. Basis of Accounting

The Village's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Village are described in the appropriate section in this note.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by the Village Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

E. Cash and Cash Equivalents

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that are held separately in accounts at a financial institution for retainage and bond reserves and debt service are reported as "Cash and Cash Equivalents with Fiscal Agents."

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as 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 negative receipts (contra revenue), respectively.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During 2005, the Village invested in nonnegotiable certificates of deposits, and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 were \$10,092.40 which includes \$6,019.76 assigned from other Village funds.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets represent \$90,515.20 or 33.78% of governmental assets.

G. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

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

I. Interfund Receivables/Payables

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 10 and 11, the employer contributions include portions for pension benefits and for postretirement healthcare benefits.

VILLAGE OF WEST SALEM
WAYNE COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Long-Term Obligations

The Village's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

At the close of 2005, \$90,515 in assets was restricted by enabling legislation.

N. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

O. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

NOTE 3 - CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

Last year, the Village reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Village has implemented the modified cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

Also as described in Note 2, the Village has elected to report inventory, prepaid items, interfund receivables (payables), capital assets, and long-term debt as part of the modified cash basis of accounting.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 3 - CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY (Continued)

The transition from the regulatory basis of accounting to the modified cash basis of accounting generated the following changes to fund balance/equity as previously reported at December 31, 2004. The calculation of net assets of governmental and business-type activities at December 31, 2004 is also presented.

	<u>General</u>	<u>Other Governmental</u>	<u>Governmental Activities</u>
Fund Balance December 31, 2004	\$113,116	\$198,248	\$311,364
Inventory			
Prepaid Items			
Interfund Receivables (Payables)			
Adjusted Fund Balance, December 31, 2004	<u>\$113,116</u>	<u>\$198,248</u>	
Government-Wide Financial Statement Adjustments			
Capital Assets			
General Obligation Bonds Payable			
Internal Service Fund - Internal Balance			
Internal Service Fund - Government Portion			
Internal Service Fund - External Portion			
Governmental Activities Net Assets December 31, 2004			<u>\$311,364</u>

The restatement of the business-type activities is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total Business-Type Activities</u>
Fund Equity December 31, 2004	\$52,862	\$81,281	\$134,143
Inventory			
Prepaid Items			
Interfund Receivables (Payables)			
Capital Assets			
General Obligation Bonds Payable		3,540	3,540
Adjusted Fund Equity, December 31, 2004	<u>\$52,862</u>	<u>\$84,821</u>	
Enterprise Deposit Fund			<u>25,873</u>
Adjusted Net Assets, December 31, 2004			<u>\$163,556</u>

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

As of December 31, 2005 there were no deficit fund balances.

B. Compliance

The Clerk-Treasurer is unaware at the time of the preparation of this report that there are any significant violations.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance - Budget and Actual - Budgetary Basis presented for the General and Street Funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference(s) between the budgetary basis and the modified cash basis is (are) outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis) (and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (modified cash basis)). The encumbrances outstanding at year end (budgetary basis) amounted to \$28,811.48 for the General Fund and \$1,750.00 for the Street Fund. Neither fund had outstanding advances at the end of the year.

NOTE 6 - DEPOSITS AND INVESTMENTS

Monies held by the Village are classified by the State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Village's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), and by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Village or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the Village had \$26 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents."

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

At year end, the carrying amount of the Village's deposits was \$453,355 and the bank balance was \$150,305. Of the bank balance \$100,000 was covered by federal depository insurance and \$50,305 was covered by its financial institution's collateral pool for public deposits.

The Village's investments are required to be categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Village or its agent in the Village's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the Village's name. The investments in U.S. Treasury Bills are classified in Category 3. Investments in STAR Ohio and the money market mutual fund are not classified since they are not evidenced by securities that exist in physical or book-entry form.

Investments

The Council of the Village of West Salem has authorized the Clerk-Treasurer of the Village to invest interim money in certificates of deposit or in STAR Ohio at her discretion. The Village has not established a policy regarding rate risk. The longest maturity for certificates of deposit is twelve months with most investments for periods of three or six months.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

General Fund Investments are in STAR Ohio. Investments in STAR Ohio may be increased or decreased at any time without penalty. The interest rate as of December 31, 2005 was 4.02 percent. As of December 31, 2005, \$120,508 of General Fund assets were invested with STAR Ohio. OWDA Debt Service Fund STAR Ohio investments total \$23,585. Other general governmental fund investments in STAR Ohio as of December 31, 2005 total \$17,136.

Water and Sewer Fund investments in STAR Ohio as of December 31, 2005 were \$55,721 and \$59,189 respectively.

Street Fund holds one certificate of deposit for \$10,000 which will mature in six months. The interest rate is 2.15 percent. Bond Retirement Fund has one certificate of deposit for \$2,428 which will mature in six months at a rate of 2.00 percent. Other governmental fund certificates of deposit total \$32,600. Interest rates range from 2.15 to 4.05 percent.

There is one certificate of deposit for Sewer Fund in the amount of \$15,000 which matures in six months.

In summary, as of December 31, 2005, the Village had the following investments:

	<u>Carrying Value</u>	<u>Maturity</u>
Savings	\$ 7,412	.50%
Certificates of Deposit	60,028	2.80%
STAR Ohio	<u>276,138</u>	4.02%
 Total Portfolio	 \$ <u>343,578</u>	

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Village's investment policy addresses interest rate risk by requiring that the Village's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAR Ohio carries a rating of AAAM by Standard and Poor's. The Village has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The U.S. Treasury Bills are exposed to custodial credit risk as they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Village's name. The Village has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14 (M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee." The Village does not hold securities subject to custodial risk.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 7 - INCOME TAXES

The Village levies a .75 percent income tax whose proceeds are placed in the General Fund. The Village levies and collects the tax on all income earned within the Village as well as on incomes of residents earned outside the Village. In the latter case, the Village does not allow a credit of actual taxes paid to another city. Employers within the village are required to withhold income tax on employee earnings and remit the tax to the Village at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003 were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all general fund operations for the years ended December 31, 2005, was \$24 per \$1,000 of assessed value, and for cemetery operations for the year ended December 31, 2005, was \$10 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential/Agriculture	\$10,313,070
New Construction	260,770
Commercial/Industrial/Mineral	3,807,730
Public Utility Property	
Real	
Personal	386,990
Tangible Personal Property	3,084,774
Total Assessed Value	<u>\$17,853,334</u>

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 9 - RISK MANAGEMENT

The Village has obtained property and liability insurance through commercial carriers. Coverage is for comprehensive property and general liability; vehicles; errors and omissions; law enforcement; inland marine; and electronic data processing.

Property coverage contracts protect against losses, subject to a deductible of \$1,000, limited annual aggregate loss of \$3,000,000.

The current policy is in effect until August 10, 2006.

The Village provides health insurance and vision coverage to its full-time employees through the Wayne County Benefit Plan.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five year at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members of the West Salem Police Department are all part-time so contributed to the plan as regular employees and not as law enforcement. The Village's contribution rate for pensions benefits for 2005 was 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the year ended December 31, 2005, and 2004 were \$38,612.30, and \$37,870.81 respectively. The full amount has been contributed for 2005 and 2004. There are no Village employees participating in the member direct plan.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 10 - DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund

The Village does not contribute to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. It has no full-time police officers.

NOTE 11- POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

the Ohio Public Employees Retirement System (OPERS) provides postretirement healthcare coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Healthcare coverage for disability recipients and primary survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement healthcare coverage. The healthcare coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for funding of postretirement healthcare based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund healthcare.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Healthcare premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$210,421. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with the effective date of January 1, 2008. The HCPP restructures OPERS' healthcare coverage to improve the financial solvency of the fund in response to increasing healthcare costs.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 12 - DEBT

Debt outstanding at December 31, 2005 was as follows;

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loans - 1989, 1996, 2001, and 2003	\$743,846	4.65 - 7.0 %
Ohio Public Works Commission Loans - 1995 and 1997	87,731	0.00 %
General Obligation Notes - 2003 and 2005	<u>109,813</u>	3.55 %
Total	<u>\$941,390</u>	

The Village has four loans from the Ohio Water Development Authority (OWDA). The 1989 loan relates to a sewer plant renovation and expansion project and will be repaid over a remaining period of 4 years; the 1996 loan relates to a water line upgrade and will be repaid over a remaining period of 10 years; and the 2001 loan relates to a new lift station for the sewer plant operation and will be repaid over a remaining period of 6 years. The 2003 loan was for a sewer upgrade and will be repaid over 20 years. These loans will be repaid in semiannual installments, including interest and are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements. It is anticipated that a \$78,000 planning loan obtained in 2005 will be rolled into a construction loan.

The Village has obtained two loans from the Ohio Public Works Commission (OPWC). The 1995 loan relates to construction of the Village water storage tank and will be repaid over a remaining period of 10 years. The 1997 loan relates to the replacement of waterlines and will be repaid over the remaining period of 4 years. The loans will be repaid in semiannual installments, with no interest, collateralized by the Village's Local Government Assistance receipts.

The Village's General Obligation Notes consist of an annual renewable note with Farmer's Savings Bank for the construction of sewer lines, with a current outstanding principal of \$100,000. The loan will be repaid from general government resources. The Village borrowed \$47,000 from Wayne County National Bank in 2003 for the renovation of its offices to be repaid over 5 years from general government resources.

The following is a summary of the Village's future annual debt service requirements:

Year	
2006	\$ 308,112
2007	198,649
2008	195,215
2009	205,503
2010	185,503
2011 - 2015	28,894
2016 - 2020	19,500
2021 - 2025	19,500
2026 - 2030	<u>19,500</u>
Total	<u>\$1,180,376</u>

The Ohio Revised Code provides that net general obligation debt of the Village, exclusive of certain exempt debt, issued without a vote of the electors shall not exceed 5.5 percent of the tax valuation of the Village. The Revised Code further provides that total voted and unvoted net debt of the Village less the same exempt debt shall never exceed an amount equal to 10.5 percent of its tax valuation.

**VILLAGE OF WEST SALEM
WAYNE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 13 - LEASES

The Village leases a vehicle under a lease-purchase agreement. The Village disbursed \$3,819 to pay lease costs for the year ended December 31, 2005. Future lease payments are as follows:

Year	Amount
2006	\$3,819
2007	<u>956</u>
Total	<u>\$4,775</u>

NOTE 14 - INTERFUND TRANSFERS

During 2005 the following transfers were made:

Transfers from the General Fund to:	
Major Governmental Funds	\$10,000
Other Governmental Funds	\$ 1,219
Major Enterprise Fund	<u>\$ 1,293</u>
Total Transfers from the General Fund	<u>\$12,512</u>

Transfers represent the allocation of unrestricted receipts collected in the General fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Other Transfers:	
From Sewer Fund to OWDA Debt Service	\$121,332
From Sinking Fund to Bond Retirement	\$ 57,809
From Utility Debt Reserve to Bond Retirement	<u>\$ 3,540</u>
Total Other Transfers	<u>\$182,681</u>

NOTE 15 - CONTINGENT LIABILITIES

The Administration of the Village is not aware of any lawsuits being initiated during 2005 in which the Village is named as a defendant.

NOTE 16 - SUBSEQUENT EVENTS

During 2005, the Administration of the Village was notified that it would be the recipient of a \$92,000 grant from the State of Ohio to be used for its second floor opera house renovations. Wayne County has notified the Village that it will receive approximately \$19,500 in Community Development Block Grant funding for the construction of a parking lot and walkway which will provide handicapped access to the School House Community Campus. The Village was also awarded a \$500,000 grant for the construction of a water treatment system. During 2006 the Administration will be attempting to complete the funding package necessary to proceed with the construction. Total estimated cost is in excess of three million dollars. In the meantime, the Village has initiated the pilot study required by the Ohio Environmental Protection Agency.

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KNOX & KNOX

Accountants and Consultants

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

Village of West Salem
Wayne County
P. O. Box 256
West Salem, Ohio 44287

To the Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of West Salem, Wayne County, Ohio (the Village), as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated July 25, 2006 wherein we noted the Village revised its financial presentation comparable to the requirements of Government Accounting Standards Board Statement No. 34. 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 Village's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the basic 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 Village's management dated July 25, 2006, 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 Village's basic 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 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 no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of the audit committee, management, and the Village Council. It is not intended for anyone other than these specified parties.

KNOX & KNOX

Orrville, Ohio
July 25, 2006



Mary Taylor, CPA
Auditor of State

VILLAGE OF WEST SALEM

WAYNE 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
FEBRUARY 13, 2007**