

VILLAGE OF WEST SALEM

WAYNE COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2011

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

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

We have reviewed the *Report of Independent Accountants* of the Village of West Salem, Wayne County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2011 to December 31, 2011. 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.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 15, 2012

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VILLAGE OF WEST SALEM
WAYNE COUNTY, OHIO
Audit Report
For the Year Ended December 31, 2011

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Village Council:

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, 2011, 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 opinions 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 that our audit provides a reasonable basis for our opinion.

As discussed in Note 2, 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, 2011, and the respective changes in cash financial position, thereof and the respective budgetary comparison for the General, Street Construction Maintenance and Repair, and State Highway Funds thereof for the year then ended in conformity with the accounting basis Note 2 describes.

As described in Note 2, during 2011 the Village of West Salem, Wayne County, Ohio adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2012, 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, 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 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.

We conducted our audit to opine on the Village's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets, and governmental activities. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.



Charles E. Harris & Associates, Inc.
July 12, 2012

Village of West Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

This discussion and analysis of the Village of West Salem's (also referred to as the Village's) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2011, within the limitations of the Village's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2011 are as follows:

Net assets of governmental activities increased \$55,233, or 19 percent, a significant change from the prior year. The fund most affected by the increase in cash and cash equivalents was the General Fund, which exercised strict spending policies during 2011.

The Village's general receipts are primarily property and income taxes. These receipts represent respectively 11 and 44 percent of the total cash received for governmental activities during the year. Property tax receipts for 2011 changed very little compared to 2010 as development within the Village has slowed. 2011 was the first full year of collection of the additional one quarter percent income tax for the police department.

The sewer operations, one of the Village's two business-type activities, increased its year-end balance. However, the Water Fund balance decreased just over \$19,000. This was caused by the failure of its new well field resulting in the need to purchase water and make debt payments on the inoperable water plant. During 2011, the search continued to replace the failed well-field. Studies were also conducted on the failed well field to see if there is any possibility of it operating at a reduced level. The results of the study have not been compiled.

During 2011, Council monitored operations at the School House Community Campus with the intention of determining the feasibility of its continued operation. By the end of 2010 expenses exceeded receipts by \$61,380. Included in the 2010 figure was a \$28,277 property tax payment made after a tax exemption determination was made by the State. During 2011, expenditures exceeded revenue by \$26,955.

Using the Basic Financial Statements

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

Report Components

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

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village 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.

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.

Village of West Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Basis of Accounting

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

As a result of using the 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 cash basis of accounting.

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2011, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village 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 Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village'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 Village into two types of activities:

Governmental activities. Most of the Village's basic services are reported here, including police, 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.

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

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village 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 Village are split into three categories: governmental, proprietary and fiduciary.

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village'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 Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor 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 Village's major governmental funds are the General Fund; the Street Construction, Maintenance and Repair Fund; the State Highway Fund; and the OWDA Debt Service Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Funds – When the Village 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 Village has three enterprise funds, the Water Fund, the Sanitary Sewer Fund and the Utility Deposit Fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the Village. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the Village's programs. The two Village fiduciary funds are the Mayor's Court Agency Fund and the Unclaimed Money Fund.

Village of West Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2010 compared to 2011 on a cash basis:

(Table 1)

Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Assets						
Cash and Investments	\$286,776	\$342,009	\$486,685	\$530,933	\$773,461	\$872,942
Total Assets	\$286,776	\$342,009	\$486,685	\$530,933	\$773,461	\$872,942
Net Assets						
Restricted for:						
Debt Service	\$67,286	\$68,006			\$67,286	\$68,006
Other Purposes	165,589	168,618			165,589	168,618
Unrestricted	53,901	105,385	\$486,685	\$530,933	540,586	636,318
Total Net Assets	\$286,776	\$342,009	\$486,685	\$530,933	\$773,461	\$872,942

As mentioned previously, net assets of governmental activities increased \$55,233 or 19 percent during 2011. The primary reasons contributing to the increases in cash balances are as follows:

- Continued freeze on salaries.
- Increased revenue through Mayor's Court collections.
- Strict spending policies including limits on overtime work.
- Elimination of one full-time position and one part-time position.
- A portion of the 2011 paving project was paid by Permissive Tax money. These funds are held by Wayne County and distributed upon application. In effect the work was done without decreasing the revenue which is held in the Village treasury.

Table 2 reflects the changes in net assets on a cash basis in 2010 and 2011 for Governmental activities, Business-type activities and total Village.

Village of West Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Receipts:						
Program Receipts:						
Charges for Services and Sales	\$49,402	\$72,723	\$618,903	\$614,139	\$668,305	\$686,862
Operating Grants and Contributions	71,057	104,398	0	0	71,057	104,398
Capital Grants and Contributions	164,110	0	0	0	164,110	0
Total Program Receipts	284,569	177,121	618,903	614,139	903,472	791,260
General Receipts:						
Property and Other Local Taxes	53,959	56,317	0	0	53,959	56,317
Income Taxes	171,980	216,922			171,980	216,922
Other Taxes	6,883	7,010			6,883	7,010
Grants and Entitlements Not Restricted						
to Specific Programs	65,559	57,600			65,559	57,600
Debt Proceeds	208,872	31,411		13,355	208,872	44,766
Sale of Fixed Assets	3,500	0		0	3,500	0
Interest	3,113	2,689			3,113	2,689
Miscellaneous	9,407	9,998	5,747	5,146	15,154	15,144
Total General Receipts	523,273	381,947	5,747	18,501	529,020	400,448
Total Receipts	807,842	559,068	624,650	632,640	1,432,492	1,191,708
Disbursements:						
General Government	208,175	185,148			208,175	185,148
Security of Persons and Property:	127,955	141,847			127,955	141,847
Public Health Services	29,006	29,635			29,006	29,635
Leisure Time Activities	5,103	3,980			5,103	3,980
Community Environment	3,869	4,656			3,869	4,656
Basic Utilities	0	0	430,061	482,681	430,061	482,681
Transportation	51,707	100,924			51,707	100,924
Capital Outlay	469,454	31,411			469,454	31,411
Principal Retirement	50,140	74,371			50,140	74,371
Interest and Fiscal Charges	25,648	37,574			25,648	37,574
Other	332				332	0
	971,389	609,546	430,061	482,681	1,401,450	1,092,227
Excess (Deficiency) Before Transfers	(163,547)	(50,478)	194,589	149,959	31,042	99,481
Transfers/Advances	109,875	105,711	(109,875)	(105,711)	0	0
Increase (Decrease) in Net Assets	(53,672)	55,233	84,714	44,248	31,042	99,481
Net Assets, January 1	\$340,448	\$286,776	\$401,971	\$486,685	\$742,419	\$773,461
Net Assets, December 31	\$286,776	\$342,009	\$486,685	\$530,933	\$773,461	\$872,942

Village of West Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Program receipts represent only 26 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees and charges to a nearby Village for police services provided under contract.

General receipts represent 77 percent of the Village's total receipts, and of this amount, over 57 percent are local taxes. State grants and entitlements make up another part of the Village's general receipts (12 percent). Receipts and transfers for debt issue and debt service account for 28 percent of general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of council, and the auditor, treasurer, and income tax departments, as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs to 28 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; the economic development department promotes the Village to industry and commerce as well as working with other Villages 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 on page 12, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for transportation, security of persons and property, and general government which account for 17, 23, and 30 percent of all governmental disbursements, respectively. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village 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
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

(Table 3)

	Governmental Activities			
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2010	2010	2011	2011
General Government	\$208,175	\$166,030	\$185,148	\$129,159
Security of Persons and Property	127,955	127,955	141,847	141,847
Public Health Services	29,006	21,934	29,635	13,747
Leisure Time Activities	5,103	5,103	3,980	3,980
Economic Development	3,869	3,684	4,656	4,606
Basic Utilities	0	(35,400)	0	0
Transportation	51,707	(55,781)	100,924	(2,335)
Capital Outlay	469,454	377,175	31,411	31,411
Principal Retirement	50,140	50,140	74,371	74,371
Interest and Fiscal Charges	25,648	25,648	37,574	37,574
Other	332	332	0	0
Total Expenses	\$971,389	\$686,820	\$609,546	\$434,360

The dependence upon property and income tax receipts is apparent as over 71 percent of governmental activities are supported through these general receipts.

Business-type Activities

The water operation of the Village is relatively small and routinely reports receipts and cash disbursements. As mentioned above, water disbursements exceed receipts because the Village must purchase water and at the same time make debt payments on the inoperable new water plant. The sanitary sewer operation of the Village also routinely reports receipts and cash disbursements. Receipts exceed disbursements. Effective with the December 2011 billing, recently passed legislation reduced consumer fees for sanitary sewer service by \$4 and increase the fees for water service by \$4.

The Village's Funds

Governmental funds had receipts totaling \$664,779 and disbursements of \$609,546. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$25,301 as the result of efforts to limit spending.

General Fund receipts were greater than disbursements by \$25,301 indicating that the General Fund is reversing the deficit spending situation of prior years. It was the recommendation of the finance committee and the administration that a reduction in disbursements was preferable to requesting additional funds from the taxpayers.

Street Fund revenues exceeded expenditures by \$2,148. A part-time employee who resigned was not replaced.

State Highway Fund revenues exceeded expenditures by \$3,644. There were no projects involving this fund during 2011.

OWDA Debt Service Fund's balance increased by \$720. One loan was retired during the year and the transfers into the debt service fund were decreased.

Village of West Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

General Fund Budgeting Highlights

The Village'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 2011, the Village amended its General Fund budget several times to reflect changing circumstances. Final budgeted receipts were below original budgeted receipts due to a decrease in fixed asset sale. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$367,975 while actual disbursements were \$305,634. Although receipts failed to live up to expectations, appropriations were reduced a minor amount. The Village spent less than the budgeted amounts as demonstrated by the reported variances. The result is the increase in budgetary fund balance of \$12,714 for 2011.

Capital Assets and Debt Administration

Capital Assets

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

Debt

At December 31, 2011, the Village's outstanding debt included \$1,897,804 in Ohio Water Development and Ohio Public Works Commission loans for infrastructure. For further information regarding the Village's debt, refer to notes 11 and 12 to the basic financial statements.

Current Issues

The challenge for all Villages is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Village. The property tax valuation has decreased from \$18,113,230 in 2010 to \$16,768,160 in 2011, a decrease of \$1,345,070. Council has decided that a final decision regarding the future of the community campus will be made during 2012.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village'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, Ohio
Wayne County
Statement of Net Assets - Cash Basis
December 31, 2011

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$342,009	\$530,933	\$872,942
<i>Total Assets</i>	<u>\$342,009</u>	<u>\$530,933</u>	<u>\$872,942</u>
Net Assets			
Restricted for:			
Debt Service	\$68,006		\$68,006
Other Purposes	168,618		168,618
Unrestricted	<u>105,385</u>	<u>\$530,933</u>	<u>636,318</u>
<i>Total Net Assets</i>	<u>\$342,009</u>	<u>\$530,933</u>	<u>\$872,942</u>

See accompanying notes to the basic financial statements

Village of West Salem, Ohio
Wayne County
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
December 31, 2011

	General	Street Constr. Main. Rep. Fd.	State Hwy Fund	OWDA Debt Servic Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$79,202	\$61,774	\$45,283	\$68,006	\$87,744	\$342,009
<i>Total Assets</i>	<u>\$79,202</u>	<u>\$61,774</u>	<u>\$45,283</u>	<u>\$68,006</u>	<u>\$87,744</u>	<u>\$342,009</u>
Fund Balances						
Restricted		\$61,774	\$45,283	\$68,006	\$81,279	\$256,342
Committed	\$5,540				6,465	12,005
Assigned	12,587					12,587
Unassigned	61,075					61,075
<i>Total Fund Balances</i>	<u>\$79,202</u>	<u>\$61,774</u>	<u>\$45,283</u>	<u>\$68,006</u>	<u>\$87,744</u>	<u>\$342,009</u>

See accompanying notes to the basic financial statements

Village of West Salem
Wayne County
Statement of Receipts, Disbursements and Changes Fund Balances - Cash Basis
Governmental Funds
For the Year Ended December 31, 2011

	General	Street Constr. Maint. Repair Fd.	State Hwy Fund	OWDA Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Municipal Income Taxes	\$164,816				\$52,106	\$216,922
Property Taxes	39,655				16,662	56,317
Other Local Taxes	39				6,971	7,010
Intergovernmental	55,241	\$58,808	\$4,767		41,246	160,062
Special Assessments		796			1,935	2,731
Charges for Services	34,800				15,888	50,688
Fines, Licenses and Permits	15,629				1,170	16,799
Earnings on Investments	1,784	243	124	\$446	92	2,689
Miscellaneous	6,384	2,580			5,475	14,439
<i>Total Receipts</i>	<u>318,348</u>	<u>62,427</u>	<u>4,891</u>	<u>446</u>	<u>141,545</u>	<u>527,657</u>
Disbursements						
Current:						
Security of Persons and Property	93,714				48,133	141,847
Public Health Services	4,565				25,070	29,635
Leisure Time Activities	3,980					3,980
Community Environment	2,893				1,763	4,656
Transportation		60,279	1,247		39,398	100,924
General Government	183,292				1,856	185,148
Capital Outlay					31,411	31,411
Debt Service:						
Principal Retirement	4,100			68,437	1,834	74,371
Interest and Fiscal Charges	503			36,409	662	37,574
<i>Total Disbursements</i>	<u>293,047</u>	<u>60,279</u>	<u>1,247</u>	<u>104,846</u>	<u>150,127</u>	<u>609,546</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	25,301	2,148	3,644	(104,400)	(8,582)	(81,889)
Other Financing Sources (Uses)						
OWDA Proceeds					31,411	31,411
Transfers In				105,120		105,120
Advances In					591	591
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>105,120</u>	<u>32,002</u>	<u>137,122</u>
<i>Net Change in Fund Balances</i>	25,301	2,148	3,644	720	23,420	55,233
<i>Fund Balances Beginning of Year</i>	53,901	59,626	41,639	67,286	64,324	286,776
<i>Fund Balances End of Year</i>	<u>\$79,202</u>	<u>\$61,774</u>	<u>\$45,283</u>	<u>\$68,006</u>	<u>\$87,744</u>	<u>\$342,009</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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Municipal Income Taxes	\$171,000	\$171,000	\$164,816	(\$6,184)
Property Taxes	38,800	38,800	39,655	855
Other Local Taxes			39	39
Intergovernmental	59,999	59,999	55,241	(4,758)
Special Assessments	630	630		(630)
Charges for Services	33,600	33,600	34,800	1,200
Fines, Licenses and Permits	8,775	8,775	15,629	6,854
Earnings on Investments	2,200	2,200	1,784	(416)
Miscellaneous	6,500	6,500	6,384	(116)
<i>Total Receipts</i>	<u>321,504</u>	<u>321,504</u>	<u>318,348</u>	<u>(3,156)</u>
Disbursements				
Current:				
Security of Persons and Property	127,185	125,993	97,102	28,891
Public Health Services	4,566	4,566	4,566	0
Leisure Time Activities	7,102	7,031	4,520	2,511
Community Environment	11,932	11,812	4,795	7,017
General Government	213,297	213,970	190,048	23,922
Capital Outlay	4,603			0
Debt Service:				
Principal Retirement		4,100	4,100	0
Interest and Fiscal Charges		503	503	0
<i>Total Disbursements</i>	<u>368,685</u>	<u>367,975</u>	<u>305,634</u>	<u>62,341</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(47,181)	(46,471)	12,714	59,185
Other Financing Sources (Uses)				
Sale of Capital Assets	12,922	22		(22)
<i>Total Other Financing Sources (Uses)</i>	<u>12,922</u>	<u>22</u>	<u>0</u>	<u>(22)</u>
<i>Net Change in Fund Balance</i>	(34,259)	(46,449)	12,714	59,163
<i>Unencumbered Fund Balance Beginning of Year</i>	39,975	39,975	39,975	0
Prior Year Encumbrances Appropriated	13,925	13,925	13,925	0
<i>Unencumbered Fund Balance End of Year</i>	<u>\$19,641</u>	<u>\$7,451</u>	<u>\$66,614</u>	<u>\$59,163</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, 2011*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$60,000	\$58,000	\$58,808	\$808
Special Assessments			796	796
Earnings on Investments	150	150	243	93
Miscellaneous			2,580	2,580
<i>Total Receipts</i>	<u>60,150</u>	<u>58,150</u>	<u>62,427</u>	<u>4,277</u>
Disbursements				
Current:				
General Government	74,456	73,723	66,348	7,375
<i>Total Disbursements</i>	<u>74,456</u>	<u>73,723</u>	<u>66,348</u>	<u>7,375</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(14,306)	(15,573)	(3,921)	11,652
<i>Unencumbered Fund Balance Beginning of Year</i>	58,430	58,430	58,430	0
Prior Year Encumbrances Appropriated	1,196	1,196	1,196	0
<i>Unencumbered Fund Balance End of Year</i>	<u>\$45,320</u>	<u>\$44,053</u>	<u>\$55,705</u>	<u>\$11,652</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
State Highway Fund
For the Year Ended December 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$4,980	\$4,730	\$4,767	\$37
Earnings on Investments	275	125	124	(1)
<i>Total Receipts</i>	<u>5,255</u>	<u>4,855</u>	<u>4,891</u>	<u>36</u>
Disbursements				
Current:				
General Government	18,194	18,194	1,247	16,947
<i>Total Disbursements</i>	<u>18,194</u>	<u>18,194</u>	<u>1,247</u>	<u>16,947</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(12,939)	(13,339)	3,644	16,983
<i>Unencumbered Fund Balance Beginning of Year</i>	41,545	41,545	41,545	0
Prior Year Encumbrances Appropriated	94	94	94	0
<i>Unencumbered Fund Balance End of Year</i>	<u>\$28,700</u>	<u>\$28,300</u>	<u>\$45,283</u>	<u>\$16,983</u>

See accompanying notes to the basic financial statements

Village of West Salem
Wayne County
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2011

	Business-Type Activities			Total Enterprise Funds
	Water Enterprise Fund	Sewer Enterprise Fund	Enterprise Deposit Fund	
Assets				
Equity in Pooled Cash and Cash Equivalents	\$144,154	\$333,328	\$53,451	\$530,933
<i>Total Assets</i>	<u>\$144,154</u>	<u>\$333,328</u>	<u>\$53,451</u>	<u>\$530,933</u>
Net Assets				
Unrestricted	\$144,154	\$333,328	\$53,451	\$530,933
<i>Total Net Assets</i>	<u>\$144,154</u>	<u>\$333,328</u>	<u>\$53,451</u>	<u>\$530,933</u>

See accompanying notes to the basic financial statements

Village of West Salem
Wayne County
Statement of Receipts, Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2011

	Business-Type Activities			Total Enterprise Funds
	Water Enterprise Fund	Sewer Enterprise Fund	Enterprise Deposit Fund	
Operating Receipts				
Charges for Services	\$317,021	\$286,684	\$5,800	\$609,505
<i>Total Operating Receipts</i>	317,021	286,684	5,800	609,505
Operating Disbursements				
Personal Services	47,893	55,264		103,157
Employee Fringe Benefits	10,940	30,284		41,224
Contractual Services	177,221	56,973		234,194
Supplies and Materials	14,710	12,812		27,522
Other			2,519	2,519
<i>Total Operating Disbursements</i>	250,764	155,333	2,519	408,616
<i>Operating Income (Loss)</i>	66,257	131,351	3,281	200,889
Non-Operating Receipts (Disbursements)				
Special Assessments	1,361	3,273		4,634
Other Debt Proceeds	13,355			13,355
Miscellaneous Receipts	1,840	3,306		5,146
Capital Outlay	(19,967)	(30,331)		(50,298)
Principal Retirement	(8,611)	(14,807)		(23,418)
Interest and Other Fiscal Charges		(349)		(349)
<i>Total Non-Operating Receipts (Disbursements)</i>	(12,022)	(38,908)	0	(50,930)
<i>Income (Loss) before Transfers and Advances</i>	54,235	92,443	3,281	149,959
Transfers Out	(72,720)	(32,400)		(105,120)
Advances Out	(591)			(591)
<i>Change in Net Assets</i>	(19,076)	60,043	3,281	44,248
<i>Net Assets Beginning of Year</i>	163,230	273,285	50,170	486,685
<i>Net Assets End of Year</i>	\$144,154	\$333,328	\$53,451	\$530,933

See accompanying notes to the basic financial statements

Village of West Salem, Ohio
Wayne County
Statement of Fiduciary Net Assets - Cash Basis
Fiduciary Funds
December 31, 2011

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,110</u>
<i>Total Assets</i>	<u><u>\$2,110</u></u>
Net Assets	
Held for unclaimed money	\$477
Held for Mayor's court	<u>1,633</u>
<i>Total Net Assets</i>	<u><u>\$2,110</u></u>

See accompanying notes to the basic financial statements

Note 1 – Reporting Entity

The Village of West Salem, Wayne County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a 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.

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 government services, water and sewer utilities, maintenance of Village roads, 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 cash basis of accounting. This 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 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.

Note 2 – Summary of Significant Accounting Policies (continued)

The statement of net assets presents the cash and investment balances, including debt balances of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for 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 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 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 proprietary 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. The Village's major governmental funds are the General Fund; the Street Construction, Maintenance & Repair Fund, the State Highway Fund; and the OWDA Debt Service 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 and State Highway Funds account for money received and expended on Village streets. The OWDA Debt Service receives and expends money to retire the several OWDA loans received by the Village. The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Note 2 – Summary of Significant Accounting Policies (continued)

Proprietary Funds

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

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 holds and releases deposits paid before service is initiated.

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. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village's two agency funds account for unclaimed money and mayor's court activity.

C. Basis of Accounting

The Village's financial statements are prepared using the 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.

As a result of the use of this 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 liabilities and the related expenses) are not recorded in these financial statements.

Note 2 – Summary of Significant Accounting Policies (continued)

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, department, and object 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 certificated 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 Investments

Village records identify the purchase of specific investments by specific funds.

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".

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, respectively.

During 2011, the Village invested in nonnegotiable certificates of deposit, a money market fund, and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost. The Village's money market fund investment is recorded at the amount reported by Farmers State Bank at December 31, 2011.

STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for 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, 2011.

Note 2 – Summary of Significant Accounting Policies (continued)

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 2011 was \$1,784 which includes \$1,210 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. The Village has no restricted 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 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 9 and 10, the employer contributions include portions for pension benefits and for postretirement healthcare benefits.

L. Long-Term Obligations

The Village's 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.

Note 2 – Summary of Significant Accounting Policies (continued)

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. Net assets restricted for other purposes include resources restricted for maintenance of cemeteries, certain police operations, operation of the School House Community Campus and park development.

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 2011 \$236,624 in assets was restricted by enabling legislation, or other government regulations.

N. Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

Enabling legislation authorizes the Village to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Village can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of Village Council. Those committed amounts cannot be used for any other purpose unless Village Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by Village Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Note 2 – Summary of Significant Accounting Policies (continued)

Assigned Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by Village Council or a Village official delegated that authority by ordinance, or by State Statute.

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

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

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 – 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, street, and state highway funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as restricted, committed or assigned fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$12,587 for the general fund and \$6,069 for the street fund.

Note 4 – Deposits and Investments

Monies held by the Village are classified by 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.

Note 4 - Deposits and Investments (continued)

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;
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).

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.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, none of the Village's bank balance of \$268,686 (which includes \$101,520 of certificates of deposit) was exposed to custodial credit risk.

Village of West Salem
Notes to the Financial Statements
For the Year Ended December 31, 2011

Note 4 - Deposits and Investments (continued)

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

The Council of the Village of West Salem has authorized the Clerk-Treasurer of the Village to invest interim money in a money market account and/or in STAR Ohio at her discretion. The Village has not established a policy regarding rate risk.

As of December 31, 2011 the Village had the following investments:

Investment Type	Carrying Value	Investment Maturities (in Years)			
		Less than 1	1-2	3-5	More than 5
Money Market Fund	\$375,320	\$375,320			
STAR Ohio	241,524	241,524			
Total Investments	<u>\$616,844</u>	<u>\$616,844</u>			

STAR Ohio carries a rating of AAAM by Standard and Poor's. Interest rate risk arises because the fair value of investments changes as interest rates change. 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 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."

Note 5 – Income Taxes

The Village levies a one percent income tax. Three quarters percent of the proceeds are placed into the General Fund. One fourth of the proceeds are credited to the Special Revenue Police 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. 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.

Village of West Salem
Notes to the Financial Statements
For the Year Ended December 31, 2011

Note 6 – Property Taxes

Property taxes include amounts levied against all real and public utility property located in the Village. Property tax revenue received in 2011 for real and public utility property taxes represents collections of the 2010 taxes.

2011 real property taxes are levied after October 1, 2011 on the assessed values as of January 1, 2011, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2011 real property taxes are collected in and intended to finance 2012.

Real property taxes are payable annually or semi-annually. 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 tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2011 public utility property taxes which became a lien on December 31, 2010, are levied after October 1, 2011, and are collected in 2011 with real property taxes.

The full tax rate for all Village operations for the year ended December 31, 2011 was \$2.40 per \$1,000 of assessed value. The assessed values of real and personal property upon which 2011 property tax receipts were based are as follows:

Real Property	\$17,797,140
Public Utility Property	309,310
Tangible Personal Property	<u>6,780</u>
Total Assessed Values	<u>\$18,113,230</u>

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the Village. The County Auditor periodically remits to the Village its portion of the taxes collected.

Village of West Salem
Notes to the Financial Statements
For the Year Ended December 31, 2011

Note 7 – Interfund Receivables/Payables

Interfund balances at December 31, 2011, consisted of the following individual fund receivables and payables:

Due to Water Fund from:	
Special Assessment	\$1,086
Total Water Fund	<u>\$1,086</u>

The balance due to the Water Fund includes advances of \$495 in 2010 and \$591 in 2011 for semi annual debt service. All amounts are expected to be repaid after the collection of delinquent taxes.

Note 8 – Risk Management

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management (“OPRM”), are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009, respectively. The Village participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of-pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009, respectively. The Village does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Village of West Salem
Notes to the Financial Statements
For the Year Ended December 31, 2011

Note 8 – Risk Management (continued)

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2010 and 2009 (the latest information available), and include amounts for both OPRM and OPHC:

	2010		2009	
	OPRM	OPHC	OPRM	OPHC
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members' Equity	\$7,191,485	\$300,035	\$6,323,701	\$105,185

You can read the complete audited financial statements for OPRM and OPHC at the Plan's website, www.ohioplan.org.

The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims. The Village participates in a group rating program.

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

Note 9 – Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

Plan Description - 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 years 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. While members in the State and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional 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.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll. Members of the West Salem Police Department, who are all part-time, contributed to the plan as regular employees and not as law enforcement.

The Village's contribution rate for state and local members in 2011 was 14% of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits.

Note 9 – Defined Benefit Pension Plans (continued)

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010, 2009 were \$26,128, \$45,767, and \$42,939 respectively. The full amount has been contributed for 2011, 2010, and 2009. There are no Village employees participating in the member directed plan.

Note 10 - Post employment Benefits

A. Ohio Public Employees Retirement System

Plan Description – OPERS maintains a cost-sharing multiple-employer defined benefit post-employment healthcare plan for qualifying members of both the traditional and combined pension plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment healthcare. The plan includes a medical plan, a prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment healthcare coverage, age-and-service retirees under the Traditional and Combined Plans must have 10 or more years of qualifying Ohio service credit. Healthcare coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide healthcare benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The post employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post employment healthcare through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post employment healthcare.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011 and 2010, state and local government employers contributed at a rate of 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14.0 percent of covered payroll for state and local government employer units.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding post-employment healthcare benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% for 2011. The portion of employer contributions allocated to health care for the year beginning January 1, 2012 remained the same, but they are subject to change based on Board action. Employers will be notified if the portion allocated to health care changes during calendar year 2012. The OPERS Board of Trustees is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The retirement board is also authorized to establish rules for the payment of a portion of the healthcare benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post employment healthcare plan.

Village of West Salem
Notes to the Financial Statements
For the Year Ended December 31, 2011

Note 10 - Post employment Benefits (continued)

The Village's contributions allocated to fund post employment healthcare benefits for the years ended December 31, 2011, 2010, and 2009, were \$13,170, \$22,884, and \$21,470 respectively. The full amount has been contributed for 2011, 2010, and 2009.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the healthcare plan.

Note 11 - Notes Payable

A summary of the note transactions for the year ended December 31, 2011, follows:

	Interest Rate	Balance December 31 2010	Additions	Reductions	Balance December 31, 2011
<u>Business-Type Activities</u>					
2006 Issue	5.25%	\$14,813	\$0	\$14,813	\$0

The 2006 note was issued to retire a prior note for sanitary sewer improvements. All note proceeds had been spent at December 31, 2001. The note was backed by the full faith and credit of the Village and matured within five years of issue.

Note 12 – Debt

The Village's long-term debt activity for the year ended December 31, 2011, was as follows:

	Interest Rate	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
<u>Business-type Activities</u>						
Combined OWDA Loans	4.09%	\$1,891,914	\$31,411	\$70,270	\$1,853,055	\$76,171
1996 OPWC Loan	0%	40,000	0	8,000	32,000	8,000
WSOS Community Action Commission Loan	4.00%	0	13,355	606	12,749	2,276
Total Business-type Activities		<u>\$1,931,914</u>	<u>\$44,766</u>	<u>\$78,876</u>	<u>\$1,897,804</u>	<u>\$86,447</u>

One Ohio Water Development Authority (OWDA) loan relates to a sewer system repair project that was mandated by the Ohio Environmental Protection Agency. The loan will be repaid in semiannual installments of \$13,771, including interest, over the next twelve years. The loan is secured by sewer receipts. A second OWDA loan relates to a water line extension. Semiannual payment of \$1,248 will retire the loan after four more years. The third OWDA loan funded the construction of a new water plant and well field. After the failure of the well field the Village continued to draw on the loan and will do so until the full amount has been received. The subsequent proceeds are used in the search for a replacement well field. Semiannual payment of approximately \$36,806 will continue through 2039 before the loan is retired. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Village of West Salem
Notes to the Financial Statements
For the Year Ended December 31, 2011

Note 12 – Debt (continued)

The Ohio Public Works Commission loan helped fund a new water tower. The zero percent interest loan requires semiannual payments of \$4,000. Four years remain before the debt is retired.

In 2011, the Village also entered into a loan agreement with WSOS Community Action Commission, Inc. This loan of \$13,355 was obtained for legal expenses relating to the failure of the well field discussed above.

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

Year	WSOS Loan		OWDA Loans		OPWC Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$2,276	\$430	\$19,156	\$10,882	\$8,000	
2013	2,579	372	19,947	10,090	8,000	
2014	2,685	267	20,773	9,265	8,000	
2015	2,794	158	21,633	8,405	8,000	
2016	2,415	44	21,281	7,508		
2020–2024			177,938	28,620		
Totals	<u>\$12,749</u>	<u>\$1,271</u>	<u>\$280,728</u>	<u>\$74,770</u>	<u>\$32,000</u>	<u>\$</u>

Amortization schedule is not available for the Water Plant Loan. Therefore, OWDA loans above do not include these amounts.

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 never 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. The effects of the debt limitations at December 31, 2011, were an overall debt margin of \$1,901,889 and an unvoted debt margin of \$996,227.

Note 13 – Leases

During 2010, the Village initiated a lease purchase agreement for a 2010 cruiser. During 2011, the Village made lease payments totaling \$4,603. Future lease payments are as follows:

Year	Principal	Interest
2012	\$4,403	\$200
Total	<u>\$4,403</u>	<u>\$200</u>

Note 14 – Interfund Transfers

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 or for debt service payments collected in various funds.

Other Transfers and Advances:

Transfers:	
From Sewer Fund to OWDA Debt Service Fund	\$32,400
From Water Fund to OWDA Debt Service Fund	\$72,720
Advances:	
From Water Fund to Special Assessment Fund	\$ 591

Village of West Salem
Notes to the Financial Statements
For the Year Ended December 31, 2011

Note 14 – Interfund Transfers (Continued)

During 2011, \$591 was advanced from Water Fund to Special Assessment. Both in 2010 and 2011, special assessment collections were less than the amounts assessed. To date a total of \$1,086 must be advanced back to Water Fund once delinquent taxes have been collected.

Note 15 – Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Street Construction Maint. Rep.	State Highway	OWDA Debt Service	Other Governmental Funds	Total
Restricted for						
Road Improvements		\$ 61,774	\$ 45,283		\$ 32,742	\$ 139,799
Court Operations					2,390	2,390
Multi-Purpose Facility					4,482	4,482
Protective Services					5,946	5,946
Drug and Alcohol Education					1,656	1,656
Debt Service				\$68,006		68,006
Cemetery					34,063	34,063
<i>Total Restricted</i>	0	61,774	45,283	68,006	81,279	256,342
Committed to						
New Tree Development	\$ 5,540					5,540
Recreation Programs					6,465	6,465
<i>Total Committed</i>	5,540	0	0	0	6,465	12,005
Assigned to						
Encumbrances	12,587					12,587
<i>Total Assigned</i>	12,587	0	0	0	0	12,587
Unassigned:	61,075					61,075
<i>Total Fund Balances</i>	\$79,202	\$61,774	\$45,283	\$68,006	\$87,744	\$342,009

Note 16 – Contingent Liabilities

Management believes there are no pending claims or lawsuits.

Note 17 – Subsequent Events

In 2002, the Village constructed several wells with funds that were obtained through grants from the Ohio Public Works Commission and Community Development Block Grant programs. These wells were opened in February of 2010, but subsequently closed in July of 2010, because there was an insufficient amount of water for the Village's usage. If the Village is unable to use the equipment and structures built in 2002, it may have to repay approximately \$870,000 in grant monies to various agencies.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

Village of West Salem
Wayne County
P.O. Box 256
West Salem, OH 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 (the Village), Wayne County, Ohio, as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated July 12, 2012 wherein we noted the Village followed the cash basis of accounting rather than accounting principles generally accepted in the United States of America. We also noted the Village implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". 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 Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected.

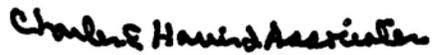
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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*.

However, we noted certain matters that we have reported to management of the Village in a separate letter dated July 12, 2012.

We intend this report solely for the information and use of management, the audit committee, Village Council and others within the Village. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Charles E. Harris".

Charles E. Harris and Associates, Inc.
July 12, 2012

VILLAGE OF WEST SALEM
WAYNE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2011

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2010-WestSalem-01	Material Weakness – Incorrectly recording various transactions and report deficiencies	No	Partially corrected. Moved to management letter.

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Dave Yost • 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
NOVEMBER 29, 2012