



Dave Yost • Auditor of State

SALEM TOWNSHIP
WARREN COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Salem Township
Warren County
PO Box 171
Morrow, Ohio 45152

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of Salem Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Township's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Township's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Township prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2012 and 2011, or changes in financial position thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of Salem Township, Warren County as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 Salem Township adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2013, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 19, 2013

**SALEM TOWNSHIP
WARREN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | General | Special Revenue | Debt Service | Permanent | Totals (Memorandum Only) |
|---|------------------|--------------------|------------------|-----------------|--------------------------------|
| Cash Receipts | | | | | |
| Property and Other Local Taxes | \$92,798 | \$896,489 | | | \$989,287 |
| Charges for Services | | 160,396 | | | 160,396 |
| Licenses, Permits and Fees | 11,091 | 27,218 | | | 38,309 |
| Intergovernmental | 100,563 | 220,663 | | | 321,226 |
| Special Assessments | | 5,505 | | | 5,505 |
| Earnings on Investments | 7,038 | 2,325 | | 433 | 9,796 |
| Miscellaneous | 447 | 95,121 | | | 95,568 |
| <i>Total Cash Receipts</i> | <u>211,937</u> | <u>1,407,717</u> | <u>0</u> | <u>433</u> | <u>1,620,087</u> |
| Cash Disbursements | | | | | |
| Current: | | | | | |
| General Government | 194,007 | 6,737 | | | 200,744 |
| Public Safety | 512 | 748,987 | | | 749,499 |
| Public Works | 2,958 | 163,888 | | | 166,846 |
| Health | 25,547 | 36,010 | | 1,060 | 62,617 |
| Other | | 35,000 | | | 35,000 |
| Capital Outlay | 35,334 | 315,837 | | | 351,171 |
| Debt Service: | | | | | |
| Principal Retirement | | | 135,000 | | 135,000 |
| Interest and Fiscal Charges | | | 141,572 | | 141,572 |
| <i>Total Cash Disbursements</i> | <u>258,358</u> | <u>1,306,459</u> | <u>276,572</u> | <u>1,060</u> | <u>1,842,449</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>(46,421)</u> | <u>101,258</u> | <u>(276,572)</u> | <u>(627)</u> | <u>(222,362)</u> |
| Other Financing Receipts (Disbursements) | | | | | |
| Transfers In | 0 | 0 | 276,572 | | 276,572 |
| Transfers Out | 0 | (276,572) | 0 | | (276,572) |
| Advances In | 20,000 | 212,772 | 0 | | 232,772 |
| Advances Out | (212,772) | (20,000) | 0 | | (232,772) |
| Other Financing Sources | 571 | 0 | 0 | | 571 |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>(192,201)</u> | <u>(83,800)</u> | <u>276,572</u> | <u>0</u> | <u>571</u> |
| <i>Net Change in Fund Cash Balances</i> | <u>(238,622)</u> | <u>17,458</u> | <u>0</u> | <u>(627)</u> | <u>(221,791)</u> |
| <i>Fund Cash Balances, January 1</i> | <u>1,017,885</u> | <u>1,241,894</u> | <u>0</u> | <u>44,441</u> | <u>2,304,220</u> |
| Fund Cash Balances, December 31 | | | | | |
| Nonspendable | 0 | 0 | 0 | 43,500 | 43,500 |
| Restricted | 0 | 1,259,352 | 0 | 0 | 1,259,352 |
| Committed | 0 | 0 | 0 | 0 | 0 |
| Assigned | 0 | 0 | 0 | 314 | 314 |
| Unassigned (Deficit) | 779,263 | 0 | 0 | 0 | 779,263 |
| <i>Fund Cash Balances, December 31</i> | <u>\$779,263</u> | <u>\$1,259,352</u> | <u>\$0</u> | <u>\$43,814</u> | <u>\$2,082,429</u> |

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

**SALEM TOWNSHIP
WARREN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | General | Special Revenue | Debt Service | Permanent | Totals (Memorandum Only) |
|---|--------------------|--------------------|------------------|-----------------|--------------------------------|
| Cash Receipts | | | | | |
| Property and Other Local Taxes | \$95,450 | \$920,137 | | | \$1,015,587 |
| Charges for Services | | 151,623 | | | 151,623 |
| Licenses, Permits and Fees | 12,414 | 17,375 | | | 29,789 |
| Intergovernmental | 783,297 | 213,809 | | | 997,106 |
| Special Assessments | | 5,677 | | | 5,677 |
| Earnings on Investments | 12,882 | 2,842 | | 449 | 16,173 |
| Miscellaneous | 17,759 | 43,762 | | | 61,521 |
| <i>Total Cash Receipts</i> | <u>921,802</u> | <u>1,355,225</u> | <u>0</u> | <u>449</u> | <u>2,277,476</u> |
| Cash Disbursements | | | | | |
| Current: | | | | | |
| General Government | 218,737 | 11,563 | | | 230,300 |
| Public Safety | 44,415 | 691,160 | | | 735,575 |
| Public Works | 3,336 | 136,758 | | | 140,094 |
| Health | 26,343 | 27,628 | | 1,040 | 55,011 |
| Other | | 27,105 | | | 27,105 |
| Capital Outlay | 32,470 | 210,578 | | | 243,048 |
| Debt Service: | | | | | |
| Principal Retirement | | | 139,000 | | 139,000 |
| Interest and Fiscal Charges | | | 149,903 | | 149,903 |
| <i>Total Cash Disbursements</i> | <u>325,301</u> | <u>1,104,792</u> | <u>288,903</u> | <u>1,040</u> | <u>1,720,036</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | <u>596,501</u> | <u>250,433</u> | <u>(288,903)</u> | <u>(591)</u> | <u>557,440</u> |
| Other Financing Receipts (Disbursements) | | | | | |
| Transfers In | 0 | 23,452 | 288,903 | | 312,355 |
| Transfers Out | (23,452) | (288,903) | 0 | | (312,355) |
| Other Financing Sources | 1,070 | 0 | 0 | | 1,070 |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>(22,382)</u> | <u>(265,451)</u> | <u>288,903</u> | <u>0</u> | <u>1,070</u> |
| <i>Net Change in Fund Cash Balances</i> | 574,119 | (15,018) | 0 | (591) | 558,510 |
| <i>Fund Cash Balances, January 1 (Restated, Note 2)</i> | <u>443,766</u> | <u>1,256,912</u> | <u>0</u> | <u>45,032</u> | <u>1,745,710</u> |
| Fund Cash Balances, December 31 | | | | | |
| Nonspendable | 0 | 0 | 0 | 43,500 | 43,500 |
| Restricted | 0 | 1,241,894 | 0 | 0 | 1,241,894 |
| Committed | 0 | 0 | 0 | 0 | 0 |
| Assigned | 0 | 0 | 0 | 941 | 941 |
| Unassigned (Deficit) | 1,017,885 | 0 | 0 | 0 | 1,017,885 |
| <i>Fund Cash Balances, December 31</i> | <u>\$1,017,885</u> | <u>\$1,241,894</u> | <u>\$0</u> | <u>\$44,441</u> | <u>\$2,304,220</u> |

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

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Salem Township, Warren County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services.

The Township participates in Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 8 to the financial statements provides additional information for this entity.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Deposits and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Township values Certificates of Deposit at cost. Investments in STAR Ohio are recorded at share values that STAR Ohio reports.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

Fire District Fund - This fund receives fire levy tax proceeds from the Fire Department Levy and receives money from a contract with another entity to provide fire protection services.

Ambulance Operating Fund - This fund receives money from individuals using the ambulance service and a contract with another entity for EMS services.

3. Debt Service Funds

This fund accounts for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Township had a Debt Service Fund.

General Bond Retirement Fund - This fund accounts for resources the Township accumulates to pay bond and note debt.

4. Permanent Funds

These funds account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs (for the benefit of the government or its citizenry). The Township had the following significant permanent fund:

Cemetery Endowment Fund - This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemetery.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

A summary of 2012 and 2011 budgetary activity appears in Note 4.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *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.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements. The Township does not have a committed fund balance.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

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

The Township 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.

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

G. Property, Plant, and Equipment

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

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Change in Accounting Principle and Restatement of Net Assets/Fund Equity

For fiscal year 2011, the Township reclassified certain funds as required by the revised fund classification guidance in Governmental Accounting Standard Board (GASB) Statement No. 54. Implementing GASB Statement No. 54 had the following effect on fund balances previously reported:

| | Fund Balance at January 1, 2011 | GASB 54 Change in Fund Structure | Adjusted Fund Balance at January 1, 2011 |
|------------------------|------------------------------------|--|--|
| General | \$442,868 | \$898 | \$443,766 |
| Special Revenue | \$1,257,810 | (898) | 1,256,912 |

3. Equity in Pooled Deposits and Investments

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

| | 2012 | 2011 |
|--|---------------------------|---------------------------|
| Demand deposits | \$1,326,070 | \$1,548,100 |
| Certificates of deposit | 443,500 | 443,500 |
| Other time deposits (savings accounts) | 541 | 540 |
| Total deposits | <u>1,770,111</u> | <u>1,992,140</u> |
| STAR Ohio | 312,318 | 312,080 |
| Total investments | <u>312,318</u> | <u>312,080</u> |
| Total deposits and investments | <u><u>\$2,082,429</u></u> | <u><u>\$2,304,220</u></u> |

Deposits: Deposits are insured by the Federal Depository Insurance or collateralized by the financial institution's public entity deposit pool.

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

4. Budgetary Activity

Budgetary activity for the years ending 2012 and 2011 as follows:

| 2012 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$205,127 | \$232,508 | \$27,381 |
| Special Revenue | 1,551,581 | 1,620,489 | 68,908 |
| Debt Service | 328,844 | 276,572 | (52,272) |
| Permanent | 336 | 433 | 97 |
| Total | \$2,085,888 | \$2,130,002 | \$44,114 |

| 2012 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$1,224,836 | \$471,130 | \$753,706 |
| Special Revenue | 2,791,650 | 1,603,031 | 1,188,619 |
| Debt Service | 328,844 | 276,572 | 52,272 |
| Permanent | 1,278 | 1,060 | 218 |
| Total | \$4,346,608 | \$2,351,793 | \$1,994,815 |

| 2011 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$916,703 | \$922,872 | \$6,169 |
| Special Revenue | 1,355,273 | 1,378,677 | 23,404 |
| Debt Service | 288,903 | 288,903 | 0 |
| Permanent | 380 | 449 | 69 |
| Total | \$2,561,259 | \$2,590,901 | \$29,642 |

| 2011 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$1,361,988 | \$348,753 | \$1,013,235 |
| Special Revenue | 2,610,665 | 1,393,695 | 1,216,970 |
| Debt Service | 288,903 | 288,903 | 0 |
| Permanent | 1,913 | 1,040 | 873 |
| Total | \$4,263,469 | \$2,032,391 | \$2,231,078 |

Contrary to Ohio law, estimated receipts were not accurately posted to the accounting system.

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

5. Property Tax

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

6. Debt and Interfund Advance

Debt outstanding at December 31, 2012 was as follows:

| | Principal | Interest Rate |
|------------------------------------|-------------|---------------|
| Fire Truck Acquisition Notes | \$188,000 | 6% |
| Fire Station Improvement Bond | 2,060,000 | 5.9% |
| Total | \$2,248,000 | |
| | | |
| | Principal | Interest Rate |
| Interfund Advance - General & Fire | \$192,472 | 0.25% |

The Township issued Fire Station Improvement Bonds in the amount of \$2,450,000 in 2009. The purpose of the bonds is to finance the construction for a new firehouse. Principal is to be paid on the bonds annually and interest is to be paid semi-annually on the outstanding balance.

The Fire Truck Acquisition Notes were received in 2006 in the amount of \$400,000. The purpose of the Notes was to acquire a fire truck for the Township. Principal is paid on the Notes annually and interest is paid semi-annually on the outstanding balance.

The Township advanced \$212,772 from the General to the Fire Fund in 2012 to pay for the purchased of a Horton Emergency Squad. This was approved by Resolution 12-0424. The Resolution stated that the Fire Fund would paid back the General Fund within ten years. Principal and interest payments are to be made annually. However advances should be repaid within current year and without interest. See Finding 2012-01.

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

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

6. Debt and Interfund Advance (Continued)

| Year ending December 31: | Fire Station Improvement Bonds | Fire Truck Acquisition Notes |
|--------------------------|--------------------------------------|------------------------------------|
| 2013 | \$223,600 | \$52,824 |
| 2014 | 217,600 | 53,198 |
| 2015 | 206,600 | 52,425 |
| 2016 | 205,900 | 52,505 |
| 2017 | 194,900 | |
| 2018-2022 | 901,600 | |
| 2023-2027 | 754,600 | |
| 2028-2032 | 607,600 | |
| 2033 | 106,000 | |
| Total | <u>\$3,418,400</u> | <u>\$210,952</u> |

Amortization of the Inter fund advance, including interest, is scheduled as follows:

| Year ending December 31: | Interfund Advance |
|--------------------------|----------------------|
| 2013 | \$20,531 |
| 2014 | 20,481 |
| 2015 | 20,431 |
| 2016 | 20,381 |
| 2017 | 20,331 |
| 2018-2022 | 93,459 |
| Total | <u>\$195,614</u> |

7. Retirement Systems

The Township's certified Fire Fighters and full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, OP&F participants contributed 10% of their wages. For 2012 and 2011, the Township contributed to OP&F an amount equal to 24% of full-time fire fighters' wages. For 2012 and 2011, OPERS members contributed 10 of their gross salaries and the Township contributed an amount equaling 14% of participants' gross salaries. The Township Trustees and Fiscal Officer have 1.5% of their employee contribution picked up by the Township. The Township has paid all contributions required through December 31, 2012.

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

8. Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2010, OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2011 and 2010 (the latest information available):

| | <u>2011</u> | <u>2010</u> |
|-------------|---------------------|---------------------|
| Assets | \$35,086,165 | \$35,855,252 |
| Liabilities | <u>(9,718,792)</u> | <u>(10,664,724)</u> |
| Net Assets | <u>\$25,367,373</u> | <u>\$25,190,528</u> |

At December 31, 2011 and 2010, respectively, the liabilities above include approximately \$9.1 and \$9.9 million of estimated incurred claims payable. The assets above also include approximately \$8.6 and \$9.5 million of unpaid claims to be billed to approximately 938 member governments in the future, as of December 31, 2011 and 2010, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Township's share of these unpaid claims collectible in future years is approximately \$20,000.

**SALEM TOWNSHIP
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

8. Risk Management (Continued)

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

| <u>Contributions to OTARMA</u> | |
|---------------------------------------|--------------------|
| <u>2011</u> | <u>2010</u> |
| \$30,296 | \$23,898 |

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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Dave Yost • Auditor of State

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

Salem Township
Warren County
PO Box 171
Morrow, Ohio 45152

To the Board of Trustees:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' Government Auditing Standards, the financial statements of Salem Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements and have issued our report thereon dated June 19, 2013 wherein we noted the Township followed accounting financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1. We also noted that during 2011 the Township adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Township's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Township's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Township's financial statements. We consider finding 2012-01 and 2012-02 in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-02.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Township's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Township's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

June 19, 2013

**SALEM TOWNSHIP
WARREN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

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

FINDING NUMBER 2012-01

Material Weakness

There are no statutory provisions that directly address interfund advances, but the requirements of advances are in part derived from Ohio Revised Code Sections 5705.10, 5705.14, 5705.15, 5705.16, 5705.36, 5705.39, and 5705.41. Auditor of State Bulletin 97-003 sets forth the requirements for inter-fund advances and provides additional guidance for recording such transactions.

- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the "creditor" fund) for the same purpose for which the fund receiving the cash (the "debtor" fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on the use of the money to be used to make the reimbursement;
- Advances must be approved by a formal resolution of the taxing authority of the subdivision which must include:
 - A specific statement that the transaction is an advance of cash, and
 - An indication of the money (fund) from which it is expected that repayment will be made.
- Any advance must be clearly labeled as such, and must be distinguished from a transfer. Transfers are intended to reallocate money permanently from one fund to another and may be made only as authorized in Sections 5705.14 to 5705.16 of the Revised Code. The intent for cash advances is to require repayment within the current year.

If, after an advance is made, the taxing authority determines that the transaction should, in fact, be treated as a transfer, the following procedures should be followed:

1. The necessary formal procedures for approval of the transfer should be completed including, if necessary, approval of the commissioner of tax equalization and of the court of common pleas;
2. The transfer should be formally recorded on the records of the subdivision; and
3. The entries recording the cash advance should be reversed to, in effect, repay the advance with the proceeds of the transfer.

During fiscal year 2012 the Township advanced a total of \$212,772 from the General Fund to the Fire Fund with the intent that the amount be paid back over ten years with interest. The Township posted this on the financial statements as a transfer. The Township made adjustments to the financial statements to classify the transaction as an advance in accordance with the wording of the Board of Trustees minutes.

Also, the Township did not accurately report other interfund activity for the audit period:

- In 2011 the Township incorrectly reported a transfer from the General to the Fire Fund for \$23,452 as a General Government expense from the General Fund and as Other Revenue in the Fire Fund. The Township made the appropriate adjustment.

**FINDING NUMBER 2012-01
 (Continued)**

- In 2012 the Township incorrectly reported a partial repayment of the the advance from the General Fund to the Fire Fund. The Township posted a \$20,000 repayment as a transfer from the Fire to the Debt Service Fund, and then posted a \$20,000 payment from the Debt Service Fund to the General Fund as Other Revenue. The Township made the appropriate adjustments.

Failure to accurately post interfund activity results in accurate financial statements and increases the risk that advances will not be repaid. We recommend that the Township accurately post all interfund activity. We also recommend that the Township follow Ohio Revised Code and Auditor of State Bulletin 97-003 pertaining to transfer and advance requirements.

Officials' Response:

The Township passed a Resolution on April 24, 2012 approving the loan of \$212,772 to the Fire Department Fund for the purchase of a new squad. This was done because the township had received a large estate tax settlement and wanted to save money by not paying a higher interest rate than what we could receive as interest on this money if it were invested. Assistant Chief Harrison asked the Warren County Prosecutor's office if this would be an acceptable practice. He was told it would be ok if we passed a resolution stating the township approved this transaction. However, nothing was put in writing from the prosecutor's office. I have discussed this with one of the attorneys and they are looking to see if they have any notes on the matter and will then give me something in writing.

FINDING NUMBER 2012-02

Noncompliance

Ohio Admin. Code Section 117-2-02(C)(1) states that all local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on unrealized budgetary receipts.

Estimated receipts were not accurately posted to the financial accounting system at December 31, 2011 as follows:

| Fund | Estimated Receipts | Estimated Receipts posted to the System | Variance |
|---------------|---------------------------|--|-----------------|
| General | \$ 915,303 | \$ 919,875 | \$ (4,572) |
| Zoning | 1,400 | 2,998 | (1,598) |
| Motor Vehicle | 9,290 | 9,526 | (236) |
| Gasoline | 81,000 | 82,604 | (1,604) |
| Cemetery | 19,525 | 22,975 | (3,450) |
| Bequest | 380 | 449 | (69) |
| Fire | 752,200 | 753,454 | (1,254) |
| Ambulance | 142,000 | 158,036 | (16,036) |
| Permissive | 31,200 | 32,023 | (823) |

**FINDING NUMBER 2012-02
 (Continued)**

Estimated receipts were not accurately posted to the financial accounting system at December 31, 2012 as follows:

| Fund | Estimated Receipts | Estimated Receipts posted to the System | Variance |
|---------------|---------------------------|--|-----------------|
| General | \$204,077 | \$231,357 | \$ (27,280) |
| Zoning | 1,050 | 1,150 | (100) |
| Motor Vehicle | 8,990 | 9,571 | (581) |
| Gasoline | 76,400 | 90,962 | (14,562) |
| Cemetery | 31,724 | 37,018 | (5,294) |
| Bequest | 336 | 433 | (97) |
| Fire | 1,113,600 | 1,136,424 | (22,824) |
| Ambulance | 142,000 | 165,726 | (23,726) |
| Permissive | 31,700 | 33,620 | (1,920) |
| Debt Service | 328,844 | 296,838 | 32,006 |

Failure to properly post estimated receipts can result in an inability to monitor unrealized budgetary receipts timely and accurately. We recommend the Township properly post estimated receipts to the financial accounting system.

Officials' Response:

In the past I have asked for an amended certificate in December and did not get one. The auditor's office told me the final amended certificate issued after they received my certificate of balances was the only one I would receive. Therefore, I now request an amended certificate based on estimated resources around late October or November. Those are the figures I have used to make modifications to the appropriations. Of course there is always some revenue that is received after that date and I have posted the actual revenue to my system. Since it is not included in the amended certificate, I do not appropriate any of these funds. In other audits I have been told to make my posted estimated revenue agree with the actual amount received. Now I'm thinking I should make it agree with the amounts shown on the final amended certificate I receive I keep a budget compliance spreadsheet to be sure I have not over appropriated at the end of the year, and keep tabs on my revenue. I use that to be sure at all times that I have done the proper modifications and requested an amended certificate. With the information on this spreadsheet, I am able to insure there would not be any overspending of funds. I include this spreadsheet with my budgetary papers for the audit.

Auditor of State Conclusion:

Budgetary amounts posted into the accounting system should agree to approved, certified budgetary documents, such as appropriations and the certificate of estimated resources.

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**SALEM TOWNSHIP
WARREN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2010 - 001 | Incorrect billing rates by service organization for EMS runs | Yes | |
| 2010 – 002 | Improper posting of receipts and disbursements | No | Reissued as Management Letter comment; Reissued as Finding 2012-01 for inter fund posting |
| 2010 – 003 | Improper posting of Estimated Resources | No | Reissued as Finding 2012-02 |

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SALEM TOWNSHIP

WARREN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 9, 2013**