



Dave Yost • Auditor of State



**SALEM TOWNSHIP  
WARREN COUNTY**

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# Dave Yost • Auditor of State

Salem Township  
Warren County  
PO Box 171  
Morrow, Ohio 45152

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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**Dave Yost**  
Auditor of State

October 31, 2011

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Salem Township  
Warren County  
PO Box 171  
Morrow, Ohio 45152

To the Board of Trustees:

We have audited the accompanying financial statements of Salem Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2010 and 2009, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Salem Township, Warren County, Ohio, as of December 31, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2011, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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**Dave Yost**  
Auditor of State

October 31, 2011



**SALEM TOWNSHIP  
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>					
Property and Other Local Taxes	\$91,647	\$876,585	\$0	\$0	\$968,232
Charges for Services	0	150,019	0	0	150,019
Licenses, Permits, and Fees	8,875	19,489	0	0	28,364
Intergovernmental	70,305	244,677	0	0	314,982
Special Assessments	0	4,584	0	0	4,584
Earnings on Investments	12,257	5,031	0	0	17,288
Miscellaneous	276	39,811	0	699	40,786
<b>Total Cash Receipts</b>	<b>183,360</b>	<b>1,340,196</b>	<b>0</b>	<b>699</b>	<b>1,524,255</b>
<b>Cash Disbursements:</b>					
Current:					
General Government	271,730	11,192	0	0	282,922
Public Safety	455	659,908	0	0	660,363
Public Works	3,314	141,820	0	0	145,134
Health	25,255	30,192	0	0	55,447
Supplies and Materials	0	0	0	1,250	1,250
Other	0	41,335	0	0	41,335
Capital Outlay	0	786,204	0	0	786,204
Debt Service:					
Redemption of Principal	0	0	161,000	0	161,000
Interest and Other Fiscal Charges	0	0	159,075	0	159,075
<b>Total Cash Disbursements</b>	<b>300,754</b>	<b>1,670,651</b>	<b>320,075</b>	<b>1,250</b>	<b>2,292,730</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>(117,394)</b>	<b>(330,455)</b>	<b>(320,075)</b>	<b>(551)</b>	<b>(768,475)</b>
<b>Other Financing Receipts / (Disbursements):</b>					
Transfers-In	0	0	320,075	0	320,075
Transfers-Out	0	(320,075)	0	0	(320,075)
Other Financing Sources	943	0	0	0	943
<b>Total Other Financing Receipts / (Disbursements)</b>	<b>943</b>	<b>(320,075)</b>	<b>320,075</b>	<b>0</b>	<b>943</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements</b>	<b>(116,451)</b>	<b>(650,530)</b>	<b>0</b>	<b>(551)</b>	<b>(767,532)</b>
<b>Fund Cash Balances, January 1</b>	<b>559,319</b>	<b>1,908,340</b>	<b>0</b>	<b>45,583</b>	<b>2,513,242</b>
<b>Fund Cash Balances, December 31</b>	<b><u>\$442,868</u></b>	<b><u>\$1,257,810</u></b>	<b><u>\$0</u></b>	<b><u>\$45,032</u></b>	<b><u>\$1,745,710</u></b>

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

**SALEM TOWNSHIP  
WARREN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Permanent</u>	<u>Totals (Memorandum Only)</u>
<b>Cash Receipts:</b>					
Property and Other Local Taxes	\$100,862	\$888,097	\$0	\$0	\$988,959
Charges for Services	0	163,342	0	0	163,342
Licenses, Permits, and Fees	0	17,056	0	0	17,056
Intergovernmental	83,043	267,147	0	0	350,190
Special Assessments	0	4,130	0	0	4,130
Earnings on Investments	17,804	27,751	0	0	45,555
Miscellaneous	26,584	63,076	0	1,197	90,857
<b>Total Cash Receipts</b>	<b>228,293</b>	<b>1,430,599</b>	<b>0</b>	<b>1,197</b>	<b>1,660,089</b>
<b>Cash Disbursements:</b>					
Current:					
General Government	187,843	20,143	0	0	207,986
Public Safety	456	633,673	0	0	634,129
Public Works	2,613	160,801	0	0	163,414
Other	0	1,547	0	0	1,547
Capital Outlay	0	1,865,957	0	0	1,865,957
Debt Service:					
Redemption of Principal	0	0	164,000	0	164,000
Interest and Other Fiscal Charges	0	0	133,283	0	133,283
<b>Total Cash Disbursements</b>	<b>223,942</b>	<b>2,705,702</b>	<b>297,283</b>	<b>1,170</b>	<b>3,228,097</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>4,351</b>	<b>(1,275,103)</b>	<b>(297,283)</b>	<b>27</b>	<b>(1,568,008)</b>
<b>Other Financing Receipts / (Disbursements):</b>					
Sale of Bonds		2,450,000			2,450,000
Transfers-In	0	0	297,283	0	297,283
Transfers-Out	0	(297,283)	0	0	(297,283)
Other Financing Sources	161	0	0	0	161
<b>Total Other Financing Receipts / (Disbursements)</b>	<b>161</b>	<b>2,152,717</b>	<b>297,283</b>	<b>0</b>	<b>2,450,161</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements</b>	<b>4,512</b>	<b>877,614</b>	<b>0</b>	<b>27</b>	<b>882,153</b>
<b>Fund Cash Balances, January 1</b>	<b>554,807</b>	<b>1,030,726</b>	<b>0</b>	<b>45,556</b>	<b>1,631,089</b>
<b>Fund Cash Balances, December 31</b>	<b>\$559,319</b>	<b>\$1,908,340</b>	<b>\$0</b>	<b>\$45,583</b>	<b>\$2,513,242</b>

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

**SALEM TOWNSHIP  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009**

**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 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. Note 7 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. Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

**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 reports all financial resources except those required to be accounted for in another fund.

**SALEM TOWNSHIP  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**2. Special Revenue Funds**

These funds account for proceeds from specific sources (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Fund:

2001 Fire Dept. Levy Fund - This fund receives fire levy tax proceeds from the 2001 Fire Dept Levy to provide fire protection services.

2007 Fire District Fund - This fund receives fire levy tax proceeds from the 2007 Fire Department Levy to provide fire protection services.

**3. Debt Service Funds**

These funds account for resources the Township accumulates to pay bond and note debt. The Township had the following significant 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 assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. 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. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

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

**SALEM TOWNSHIP  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**3. Encumbrances**

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

A summary of 2010 and 2009 budgetary activity appears in Note 3.

**F. Property, Plant, and Equipment**

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

**G. Accumulated Leave**

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

**2. 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:

	2010	2009
Demand deposits	\$1,190,305	\$758,361
Certificates of deposit	243,500	943,500
Total deposits	1,433,805	1,701,861
STAR Ohio	311,905	811,381
Total deposits and investments	\$1,745,710	\$2,513,242

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by the Financial Institution Public Entity Deposit Pool.

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

**SALEM TOWNSHIP  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$175,714	\$184,303	\$8,589
Special Revenue	1,265,680	1,340,196	74,516
Debt Service	320,705	320,075	(630)
Permanent	450	699	249
Total	\$1,762,549	\$1,845,273	\$82,724

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$735,992	\$300,754	\$435,238
Special Revenue	3,173,690	1,990,726	1,182,964
Debt Service	320,075	320,075	0
Permanent	2,534	1,250	1,284
Total	\$4,232,291	\$2,612,805	\$1,619,486

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$199,375	\$228,454	\$29,079
Special Revenue	3,769,132	3,880,599	111,467
Debt Service	297,283	297,283	0
Permanent	643	1,197	554
Total	\$4,266,433	\$4,407,533	\$141,100

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$740,508	\$223,942	\$516,566
Special Revenue	4,799,422	3,002,985	1,796,437
Debt Service	297,283	297,283	0
Permanent	2,700	1,170	1,530
Total	\$5,839,913	\$3,525,380	\$2,314,533

**SALEM TOWNSHIP  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**4. 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.

**5. Debt**

Debt outstanding at December 31, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Fire House Improvement Bond	\$2,255,000	6.0%
Fire Truck Acquisition Notes	267,000	5.9%
Total	<u>\$2,522,000</u>	

The Township issued Fire Station Improvement Bonds 2009 to finance the construction for a new firehouse.

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

	<u>Fire House Improvement Bond</u>	<u>Fire Truck Acquisition Notes</u>
Year ending December 31:		
2011	<b>\$235,300</b>	<b>\$53,603</b>
2012	<b>224,300</b>	<b>52,272</b>
2013	<b>223,600</b>	<b>52,824</b>
2014	<b>217,600</b>	<b>53,198</b>
2015	<b>206,600</b>	<b>52,425</b>
2016-2033	<b>2,770,600</b>	<b>52,505</b>
Total	<u>\$3,878,000</u>	<u>\$316,827</u>

**6. Retirement Systems**

The Township's certified Fire Fighters 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.

**SALEM TOWNSHIP  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**6. Retirement Systems (Continued)**

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, OP&F participants contributed 10% of their wages. For 2010 and 2009, the Township contributed to OP&F an amount equal to 24% of full-time fire fighters' wages. For 2010 and 2009, OPERS members contributed 10% of their gross salaries and the Township contributed an amount equaling 14% respectively of participants' gross salaries. The Township has paid all contributions required through December 31, 2010.

**7. 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, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Assets	\$35,855,252	\$38,982,088
Liabilities	<u>(10,664,724)</u>	<u>(12,880,766)</u>
Net Assets	<u>\$25,190,528</u>	<u>\$26,101,322</u>



**SALEM TOWNSHIP  
WARREN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2010 AND 2009  
(Continued)**

**7. Risk Management (Continued)**

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$9.9 and \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$9.5 and \$11.5 million of unpaid claims to be billed to approximately 940 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Township's share of these unpaid claims collectible in future years is approximately \$17,685

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.

<b><u>Contributions to OTARMA</u></b>	
2008	\$24,921
2009	\$19,396
2010	\$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 ACCOUNTANTS' 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 Township Board of Trustees:

We have audited the financial statements of the Salem Township, Warren County, Ohio (the Township), as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated October 31, 2011, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township's internal control over financial reporting 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 Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. 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 deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001 through 2010-003 described 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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated October 31, 2011.

We intend this report solely for the information and use of management and the Township Board of Trustees. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

**Dave Yost**  
Auditor of State

October 31, 2011

**SALEM TOWNSHIP  
WARREN COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2010 AND 2009**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2010-001**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should:

- Ensure that all transactions are properly authorized in accordance with management's policies.
- Ensure that accounting records are properly designed.
- Ensure adequate security of assets and records.
- Plan for adequate segregation of duties or compensating controls.
- Verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.
- Perform analytical procedures to determine the reasonableness of financial data.
- Ensure the collection and compilation of the data needed for the timely preparation of financial statements.
- Monitor activities performed by service organizations.

The Township contracts with Medicount Management, Inc. to provide its billing services for EMS Runs. The Board of Trustees passes rates based on the services provided by their emergency personnel. The Board also approves mileage rates for emergency runs. Medicount Management also informs the Township when certain insurance carriers increase their rates so the Board can make the appropriate adjustments.

During 2009 and 2010, the Township lacked management oversight in properly recognizing that the billed rates from Medicount Management did not match the Board approved rates for emergency runs and mileage. The lack of oversight is illustrated by the following:

During 2009, Medicount did not bill the Board approved rates for all three charges - BLS, ALS 1, and ALS 2. Mileage also was not charged the proper rate.

Board Approved Rates:	Medicount billed:	Variance per Run:
BLS---\$450	BLS-- \$400	\$50
ALS--\$650	ALS-- \$600	\$50
ALS2-\$750	ALS2-- \$700	\$50
Mileage \$11 per mile	Mileage \$ 10 per mile	\$ 1

During 2010 Medicount did not charge the proper rate for ALS 1 runs.

The Board approved ALS1 rate was \$650 and Medicount billed for \$610 for a variance of \$40 per run.

**FINDING NUMBER 2010-001  
(Continued)**

Failure to properly monitor the billing rates could result in significant funds lost to the Township. We recommend the Township periodically monitor the billing rates charged by Medicount Management, particularly following Board approved rate changes.

**FINDING NUMBER 2010-002**

**Noncompliance/Material Weakness**

**Ohio Rev. Code, Section 507.07**, requires the Township Clerk to maintain the books of the Township and exhibit accurate statements of all monies received and expended.

In addition, Ohio Admin. Code Section 117-2-02 states, in part that

(A) All local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by 117-2-03 of the Administrative Code.

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Township lacks management oversight in the posting of receipts. This lack of oversight is illustrated by the following:

- In 2009, proceeds from the sale of bonds of \$2,450,000 were posted to the Fire Department Levy's All Other Revenue transaction line item instead of to Other Financing Sources-Proceeds of Bonds transaction line item.
- In 2009, Permissive Motor Vehicle License Tax of \$30,093 was posted as Intergovernmental Receipts instead of to Taxes.

The Township utilizes the Ohio Township Accounting System (known as "OTAS") for its General Ledger system. The Township should report disbursements at the function level (i.e. General Government, Public Safety, Public Works, etc.); however, OTAS reported certain disbursements at the object level (i.e. Personal Services, Contract Services, Supplies and Materials, etc.), and subsequently the Township reported these disbursement amounts at the object level on the annual financial report. The following audit adjustments were required to the Township annual financial report to fairly state in all material respects the Township disbursements at the function level:

- 2009 financial report: \$1,912,829 in disbursements was reclassified in the Special Revenue funds from the object level to the function level.
- 2010 financial report: \$885,865 in disbursements was reclassified in the Special Revenue funds from the object level to the function level.

The Township has adjusted the financial statements to correct these errors.

**FINDING NUMBER 2010-002  
 (Continued)**

Failure to properly post revenue can result in inaccurate accounting records and financial statements. To improve the accuracy of accounting records and financial statements, we recommend that the Township properly post all revenue receipts to the correct line items. The Fiscal Officer should review receipts posted to the ledgers for accuracy. Comparisons between years may aid in the determination if the Fiscal Officer has accurately posted a receipt. Also, we recommend that the Township contact their OTAS representative in order to correct the classification description for disbursements in order to conform to the AOS financial statement presentation. The Clerk should also refer to the Township Handbook to assist in the proper posting of the Township's receipts and disbursements.

**FINDING NUMBER 2010-003**

**Material Weakness**

All local public offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. The Township failed to properly post estimated resources to their accounting system. The following differences were noted between the underlying accounting records and the approved budgetary documents for each fiscal year:

<b>Fund</b>	<b>Amount Per Certificate of Estimated Resources</b>	<b>Amount Posted to the Accounting System</b>	<b>Variance</b>
General – 2009	\$199,375	\$228,454	\$(29,079)
Motor Vehicle License Tax Fund -2009	8,000	9,155	(1,155)
Gasoline Tax Fund - 2009	77,650	87,893	(10,243)
Road & Bridge Fund - 2009	154,000	158,165	(4,165)
Cemetery Fund - 2009	21,600	28,756	(7,156)
Cemetery Bequest Fund – 2009	643	1,197	(554)
Fire District Fund - 2009	515,000	545,670	(30,670)
Ambulance Fund - 2009	135,936	164,288	(28,352)
Fire Department Levy – 2009	2,810,000	2,837,878	(27,878)
Permissive Auto License Tax Fund - 2009	29,887	30,935	(1,048)
General Fund - 2010	175,714	184,300	(8,586)
Gasoline Tax Fund	81,200	94,343	(13,143)
Road & Bridge Fund – 2010	140,000	145,121	(5,121)
Cemetery Fund - 2010	19,050	26,864	(7,814)

**FINDING NUMBER 2010-003  
 (Continued)**

<b>Fund</b>	<b>Amount Per Certificate of Estimated Resources</b>	<b>Amount Posted to the Accounting System</b>	<b>Variance</b>
Cemetery Bequest Fund – 2010	450	693	(243)
Fire District Fund - 2010	510,000	536,403	(26,403)
Ambulance Fund - 2010	132,000	151,655	(19,655)
Fire Department Levy Fund – 2010	335,000	336,654	(1,654)

Failure to properly post estimated receipts could result in excessive spending and possible negative fund balances. We recommend the Township properly post estimated resources to their budgetary ledgers. Once posted, the Fiscal Officer and the Trustees should compare the estimated resources and on the accounting system to the official documents.

**We did not receive a response from officials to the findings reported above.**



SALEM TOWNSHIP  
WARREN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2010 AND 2009

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2008-001	ORC 5705.39 Appropriations exceeding estimate revenue.	Yes	

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# Dave Yost • Auditor of State

**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  
NOVEMBER 22, 2011**