

***VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2011 & 2010

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



Dave Yost • Auditor of State

Village Council
Village of South Salem
PO Box 29
South Salem, Ohio 45681

We have reviewed the *Report of Independent Accountants* for the Village of South Salem, Ross County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2010 through 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 South Salem is responsible for compliance with these laws and regulations.

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Dave Yost
Auditor of State

December 12, 2012

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**VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2011 & 2010**

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

REPORT OF INDEPENDENT ACCOUNTANTS

Village of South Salem
Ross County
PO Box 29
South Salem, Ohio 45681

To the Village Council:

We have audited the accompanying financial statements of the Village of South Salem, Ross County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Village 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 Village's larger (i.e. major) funds separately. While the Village 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 Governments to reformat their statements. The Village 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, 2011 and 2010, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011 and 2010, or its changes in financial position or cash flows 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 as of December 31, 2011 and 2010 of the Village of South Salem, Ross County, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

As described in Note 10, during 2010 the Village 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 August 24, 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 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.

Charles E. Harris & Associates

Charles E. Harris & Associates, Inc.

August 24, 2012

VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2011

	Governmental Fund Types		Totals- (Memorandum Only)
	General	Special Revenue	
Receipts:			
Property Taxes	\$ 1,598	-	\$ 1,598
Charges for Services	1,445	-	1,445
Intergovernmental	26,198	\$ 7,716	33,914
Earning on Investment	749	77	826
Fines, Licenses and Permits	300	-	300
Total Receipts	30,290	7,793	38,083
Disbursements:			
Transportation	1,364	2,523	3,887
Security of Persons & Property	4,427	-	4,427
General Government	17,935	-	17,935
Total Disbursements	23,726	2,523	26,249
Total Receipts Over/(Under)			
Disbursements	6,564	5,270	11,834
Fund Cash Balance, January 1, 2011	86,487	28,394	114,881
Fund Balances:			
Restricted	-	33,664	33,664
Unassigned	93,051	-	93,051
Fund Cash Balance, December 31, 2011	\$ 93,051	\$ 33,664	\$ 126,715

See Accompanying Notes to the Financial Statements.

VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES -PROPRIETARY FUND TYPE
For the Year Ended December 31, 2011

	Proprietary Fund Type Enterprise
Receipts:	
Charges for Services	\$ <u>58,066</u>
Total Receipts	<u>58,066</u>
Disbursements:	
Personal Services	3,298
Fringe Benefits	811
Contractual Services	10,131
Material and Supplies	<u>37</u>
Total Disbursements	<u>14,277</u>
Excess of Receipts Over/(Under) Disbursements	<u>43,789</u>
Non-Operating Disbursements:	
Debt Service	
Principal Retirement	(7,000)
Interest and Fiscal Charges	<u>(23,821)</u>
Total Nonoperating Disbursements	<u>(30,821)</u>
Excess of Receipts Over/(Under) Disbursements and Nonoperating Disbursements	<u>12,968</u>
Transfers In	35,304
Transfers Out	<u>(35,304)</u>
Net Receipts Over/(Under) Disbursements	<u>12,968</u>
Fund Cash Balance, January 1, 2011	<u>109,220</u>
Fund Cash Balance, December 31, 2011	<u>\$ <u>122,188</u></u>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
All Governmental Fund Types
For the Year Ended December 31, 2010**

	<u>Governmental Fund Types</u>		<u>Totals- (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Receipts:			
Property Taxes	\$ 1,613	-	\$ 1,613
Charges for Services	1,225	-	1,225
Intergovernmental	21,767	\$ 8,062	29,829
Earning on Investment	1,596	68	1,664
Fines, Licenses and Permits	300	-	300
Other	21	-	21
Total Receipts	26,522	8,130	34,652
Disbursements:			
Transportation	10,122	4,282	14,404
Security of Persons & Property	1,034	-	1,034
General Government	25,104	-	25,104
Total Disbursements	36,260	4,282	40,542
Total Receipts Over/(Under) Disbursements	(9,738)	3,848	(5,890)
Fund Cash Balance, January 1, 2010	96,225	24,546	120,771
Fund Balances:			
Restricted	-	28,394	28,394
Unassigned	86,487	-	86,487
Fund Cash Balance, December 31, 2010	\$ 86,487	\$ 28,394	\$ 114,881

See Accompanying Notes to the Financial Statements.

VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES -PROPRIETARY FUND TYPE
For the Year Ended December 31, 2010

	Proprietary Fund Type Enterprise
Receipts:	
Charges for Services	\$ <u>59,923</u>
Total Receipts	<u>59,923</u>
Disbursements:	
Personal Services	3,710
Fringe Benefits	641
Contractual Services	12,000
Material and Supplies	<u>125</u>
Total Disbursements	<u>16,476</u>
Excess of Receipts Over/(Under) Disbursements	<u>43,447</u>
Non-Operating Disbursements:	
Debt Service	
Principal Retirement	(6,600)
Interest and Fiscal Charges	<u>(24,135)</u>
Total Nonoperating Disbursements	<u>(30,735)</u>
Excess of Receipts Over/(Under) Disbursements and Nonoperating Disbursements	<u>12,712</u>
Transfers In	35,304
Transfers Out	<u>(35,304)</u>
Net Receipts Over/(Under) Disbursements	12,712
Fund Cash Balance, January 1, 2010	<u>96,508</u>
Fund Cash Balance, December 31, 2010	<u><u>\$ 109,220</u></u>

See Accompanying Notes to the Financial Statements.

**VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of South Salem, (the Village) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected, six-member Council. The Village provides sewer utility, street maintenance, and general governmental services. The Village contracts with the Ross County Sheriff's department for police protection and the City of Greenfield for fire protection.

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursement basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH AND INVESTMENTS

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. FUND ACCOUNTING

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Fund Types:

General Fund: The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

D. FUND ACCOUNTING – (continued)

Special Revenue Funds: To account for the proceeds of specific revenue sources (other than trusts or capital projects) that are legally restricted to disbursements for specified purposes. The Village has the following significant Special Revenue Fund:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Proprietary Fund Types:

Enterprise Funds: These funds account for operations that are similar to private business enterprise where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village has the following significant Enterprise Funds:

Sewer Operating Fund – This fund receives charges for services from residents to cover the costs of providing this utility.

Sewer Sinking Fund – This fund receives a portion of the charges for services from residents to accumulate funds for future uses.

E. BUDGETARY PROCESS

1. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village Fiscal Officer.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

On or about January 1, the Fiscal Officer sends the county auditor a certificate to which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected increases or decreases in revenue are identified by the Fiscal Officer. The amounts reported in Note 4 reflect the amounts in the final amended certificates issued during 2010 and 2011.

**VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

E. BUDGETARY PROCESS- (continued)

Budgeted receipts, as shown in Note 4, do not include the unencumbered fund balances as of January 1, 2010 and 2011. However, those fund balances are available for appropriation.

2. Appropriations

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

The legal level of budgetary control is at the object level in all funds. Any budgetary modifications at this level may only be made by ordinance of the Village Council.

3. Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Unencumbered appropriations lapse at year-end.

F. FUND BALANCE

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources.

1. Nonspendable- The Village 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- The Village Council can commit amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends 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.

**VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

F. FUND BALANCE - (continued)

4. Assigned- Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restrict 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 the Village Council.

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 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.

G. PROPERTY, PLANT AND EQUIPMENT

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

H. UNPAID VACATION AND SICK LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused vacation and sick leave. Unpaid vacation and sick leave are not reflected as liabilities on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	2011	2010
Demand deposits	\$ 248,903	\$ 224,101

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation; (2) collateralized by securities specifically pledged by the financial institution to the Village or (3) collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

3. PROPERTY TAXES

Real property taxes are levied on assessed values, which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as intergovernmental receipts.

Public utilities are also taxed on personal and real property located within the Village.

The County Treasurer collects property tax on behalf of all taxing authorities within the county. The County Auditor periodically remits to the taxing authorities their portions of the taxes collected.

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

<u>Fund Types</u>	2011 Budgeted vs Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 26,819	\$ 30,290	\$ 3,471
Special Revenue	8,130	7,793	(337)
Enterprise	93,304	93,370	66
Total	\$ 128,253	\$ 131,453	\$ 3,200

**VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

4. BUDGETARY ACTIVITY – (continued)

2011 Budgeted vs Actual Budgetary Basis Disbursements			
<u>Fund Types</u>	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	<u>Variance</u>
General	\$ 112,000	\$ 23,726	\$ 88,274
Special Revenue	36,000	2,523	33,477
Enterprise	150,116	45,098	105,018
Total	\$ 298,116	\$ 71,347	\$ 226,769

2010 Budgeted vs Actual Receipts			
<u>Fund Types</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 32,092	\$ 26,522	\$ (5,570)
Special Revenue	7,090	8,130	1,040
Enterprise	97,211	59,923	(37,288)
Total	\$ 136,393	\$ 94,575	\$ (41,818)

2010 Budgeted vs Actual Budgetary Basis Disbursements			
<u>Fund Types</u>	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	<u>Variance</u>
General	\$ 100,700	\$ 36,260	\$ 64,440
Special Revenue	30,000	4,282	25,718
Enterprise	120,904	47,211	73,693
Total	\$ 251,604	\$ 87,753	\$ 163,851

**VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

5. DEBT

Debt outstanding at December 31, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sanitary Sewer System Mortgage Revenue Bonds	<u>\$ 494,500</u>	4.75%

The Village issued sanitary sewer system mortgage revenue bonds for \$547,000 in June 2002 to retire a note for sewer system improvements. The bonds are being repaid in annual installments ranging from \$28,922 to \$30,886, including interest, over 40 years. The bonds are collateralized by sanitary sewer receipts. The Village has agreed to set utility rates sufficient to cover the debt service requirements.

As required by the mortgage revenue bond covenant, The Village has established a reserve fund, included as an enterprise fund. The balance in the fund at December 31, 2011 is \$29,412.

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011 are as follows:

<u>Year Ending December 31:</u>	<u>Mortgage Revenue Bonds</u>
2012	\$ 30,789
2013	30,842
2014	30,776
2015	30,796
2016	30,797
2017-2021	153,903
2022-2026	153,984
2027-2031	153,998
2032-2036	153,950
2037-2041	154,012
2042	<u>30,795</u>
Total	<u>\$ 954,642</u>

**VILLAGE OF SOUTH SALEM
ROSS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2011 and 2010**

6. RISK MANAGEMENT

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

The Village has obtained commercial insurance for the following risks:

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

There have been no significant reductions in insurance coverage from the prior fiscal years and settled claims have not exceeded this commercial coverage in any of the last three years. The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

7. RETIREMENT SYSTEM

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a state operated, cost sharing, multiple employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are prescribed by the Ohio Revised Code. OPERS members contributed 10.0% of their gross pay while the Village contributed an amount equal to 14.00% of covered payroll for both years. The Village paid all required contributions through 2011.

8. TRANSFERS

Transfers are used to move revenues from funds that statute or budget requires to collect them to the funds that statute or budget requires to expend them; to segregate money for anticipated capital projects and to provide additional resources for current operations or debt service.

9. CHANGE IN ACCOUNTING PRINCIPLE

For 2010, the Village implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 had no effect on the fund balances as previously reported.

10. CONTINGENT LIABILITIES

Management believes there are no pending claims or lawsuits.

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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 South Salem
Ross County
PO Box 29
South Salem, Ohio 45681

To the Village Council:

We have audited the financial statements of the Village of South Salem, Ross County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated August 24, 2012, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and implemented GASB Statement No. 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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

Charles E. Harris

Charles E. Harris and Associates, Inc.

August 24, 2012

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, for the years ended December 31, 2009 and 2008, reported no material citations or recommendations.

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Dave Yost • Auditor of State

VILLAGE OF SOUTH SALEM

ROSS 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
DECEMBER 20, 2012