



**Auditor of State
Betty Montgomery**

VILLAGE OF LOWER SALEM
WASHINGTON COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Lower Salem
Washington County
120 Main Street
P.O. Box 22
Lower Salem, Ohio 45745

To the Village Council:

We have audited the accompanying financial statements of the Village of Lower Salem, Washington County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Lower Salem, Washington County, as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Village of Lower Salem
Washington County
Independent Accountants' Report
Page 2

This report is intended solely for the information and use of management, Village Council and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

July 9, 2003

**VILLAGE OF LOWER SALEM
WASHINGTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Expendable Trust</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$1,462	\$	\$	\$1,462
Intergovernmental Receipts	42,047	60,932		102,979
Earnings on Investments	176	60	163	399
Miscellaneous	8,251			8,251
	<u>51,936</u>	<u>60,992</u>	<u>163</u>	<u>113,091</u>
Total Cash Receipts				
	<u>51,936</u>	<u>60,992</u>	<u>163</u>	<u>113,091</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	2,925			2,925
Public Health Services	196			196
Leisure Time Activities	1,741		846	2,587
Transportation	7,622	61,149		68,771
General Government	21,825			21,825
Capital Outlay	12,393			12,393
	<u>46,702</u>	<u>61,149</u>	<u>846</u>	<u>108,697</u>
Total Cash Disbursements				
	<u>46,702</u>	<u>61,149</u>	<u>846</u>	<u>108,697</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>5,234</u>	<u>(157)</u>	<u>(683)</u>	<u>4,394</u>
Fund Cash Balances, January 1	<u>11,392</u>	<u>3,847</u>	<u>9,831</u>	<u>25,070</u>
Fund Cash Balances, December 31	<u><u>\$16,626</u></u>	<u><u>\$3,690</u></u>	<u><u>\$9,148</u></u>	<u><u>\$29,464</u></u>

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

**VILLAGE OF LOWER SALEM
WASHINGTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$1,359	\$	\$	\$	\$1,359
Intergovernmental Receipts	37,688	1,885	245,672		285,245
Earnings on Investments	452	150		244	846
Miscellaneous	6,501				6,501
Total Cash Receipts	<u>46,000</u>	<u>2,035</u>	<u>245,672</u>	<u>244</u>	<u>293,951</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	2,804				2,804
Public Health Services	194				194
Leisure Time Activities	1,587			1,890	3,477
Transportation	30,597	5,458	245,672		281,727
General Government	22,705				22,705
Total Cash Disbursements	<u>57,887</u>	<u>5,458</u>	<u>245,672</u>	<u>1,890</u>	<u>310,907</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(11,887)</u>	<u>(3,423)</u>	<u>0</u>	<u>(1,646)</u>	<u>(16,956)</u>
Other Financing Receipts and (Disbursements):					
Other Financing Sources	900				900
Other Financing Uses	(900)			(5)	(905)
Total Other Financing Receipts/(Disbursements)	<u>0</u>	<u>0</u>	<u>0</u>	<u>(5)</u>	<u>(5)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(11,887)	(3,423)	0	(1,651)	(16,961)
Fund Cash Balances, January 1	<u>23,279</u>	<u>7,270</u>	<u>0</u>	<u>11,482</u>	<u>42,031</u>
Fund Cash Balances, December 31	<u>\$11,392</u>	<u>\$3,847</u>	<u>\$0</u>	<u>\$9,831</u>	<u>\$25,070</u>

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

**VILLAGE OF LOWER SALEM
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Lower Salem, Washington County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides maintenance of Village's sidewalks and roads.

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

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 disbursements 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).

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

C. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

3. Capital Projects Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project funds

Ohio Public Works Commission Projects Fund - The Village received a grant from the State of Ohio for the paving of Village roads.

**VILLAGE OF LOWER SALEM
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the fund is classified as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Robert Hausser Park Fund – This fund is classified as an expendable trust fund. Interest from the trust is used for the maintenance of the Village's park.

D. 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, appropriations may not exceed estimated resources. The Council 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 Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

E. 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.

**VILLAGE OF LOWER SALEM
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH

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

	2002	2001
Demand deposits	\$29,464	\$25,070
Total deposits	\$29,464	\$25,070

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001, follows:

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$53,183	\$51,936	(\$1,247)
Special Revenue	60,670	60,992	322
Fiduciary	300	163	(137)
Total	\$114,153	\$113,091	(\$1,062)

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$64,575	\$46,702	\$17,873
Special Revenue	64,519	61,149	3,370
Fiduciary	10,131	846	9,285
Total	\$139,225	\$108,697	\$30,528

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$45,494	\$46,900	\$1,406
Special Revenue	93,705	2,035	(91,670)
Debt Service	68,000	0	(68,000)
Capital Projects	245,672	245,672	0
Fiduciary	540	244	(296)
Total	\$453,411	\$294,851	(\$158,560)

**VILLAGE OF LOWER SALEM
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$68,773	\$58,787	\$9,986
Special Revenue	100,975	5,458	95,517
Capital Projects	245,672	245,672	0
Fiduciary	12,022	1,895	10,127
Total	\$427,442	\$311,812	\$115,630

Prior certification of Village funds was not obtained for 95% and 65% of expenditures tested for 2001 and 2002 respectively, contrary to Ohio law.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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 Village.

5. RETIREMENT SYSTEMS

The Village's part-time employees and three of the Village's elected officials belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a 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. The remainder of the Village's elected officials are members of Social Security. The Village has paid all contributions required through December 31, 2002.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, OPERS members contributed 8.5% of their wages. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Village has paid all contributions required through December 31, 2002.

**VILLAGE OF LOWER SALEM
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

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**Auditor of State
Betty Montgomery**

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

Village of Lower Salem
Washington County
120 Main Street
P.O. Box 22
Lower Salem, Ohio 45745

To the Village Council:

We have audited the accompanying financial statements of the Village of Lower Salem, Washington County, Ohio (the Village), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated July 9, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported management of the Village in a separate letter dated July 9, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated July 9, 2003.

Village of Lower Salem
Washington County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management, and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

July 9, 2003

**VILLAGE OF LOWER SALEM
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41 (D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

- A. Then and Now Certificate – This exception provides that, if the fiscal officer can certify that both at the time the contract or order was made and at the time of completing the certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any encumbrances, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

- B. Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Ninety-five percent of the transactions we tested for 2001 and sixty-five percent of the transactions tested for 2002 did not include prior certification of the Village Clerk/Treasurer, nor was there any evidence of a “Then and Now” certificate being used by the Village Clerk/Treasurer.

We recommend the Village obtain the Village Clerk/Treasurer’s prior certification for all disbursements.



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

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VILLAGE OF LOWER SALEM

WASHINGTON 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
OCTOBER 9, 2003**