



**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Salem Township
Champaign County
3293 Clark Road
Urbana, Ohio 43078

To the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem Township, Champaign County, (the Township), as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

The Township reported the Cemetery Bequest Funds, representing four percent of entity wide assets and 57 percent of the aggregate remaining fund information assets, as Permanent Funds without first obtaining the trust agreements to support this classification. Accounting principles generally accepted in the United States of America require supporting documentation when determining the classification of bequest funds as either permanent funds or private purpose trust funds.

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of not providing support for the classification of the Cemetery Bequest Funds as Permanent Funds in the governmental activities and the aggregate remaining fund information, as described in the previous paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Township, as of December 31, 2005, and the respective changes in the modified cash financial position and the respective budgetary comparison for the General Fund and each major special revenue fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2005, the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2006, 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.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Betty Montgomery
Auditor of State

October 18, 2006

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

This discussion and analysis of the Salem Township's (the Township) financial performance provides an overall review of the Township's financial activities for the year ended December 31, 2005, within the limitations of the Township's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Township's financial performance.

Highlights

Key highlights for 2005 are as follows:

- Net assets of governmental activities decreased \$46,885, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the Gasoline Tax Fund, which realized the greatest burden of increased costs during 2005; however, cost increases affected most funds.
- The Township's general receipts are primarily property taxes. These receipts represent \$130,920 total cash received for governmental activities during the year. Property tax receipts for 2005 changed very little compared to 2004 as development within the Township has slowed.
- The Township works with the Champaign County Engineer's Office (CCEO) to repair roads, and the CCEO divides the county into thirds and completes projects in a three year rotation. During 2004, only a few roads in the Township on the west side of US Highway 68 were resurfaced. During 2005, the majority of the Township's roads were resurfaced. Clark Road was resurfaced a second time due to problems with the first application. The CCEO only charged the Township for the products used and no labor cost for the second application. There will be no resurfacing of the Township roads during 2006 while the county completes projects on the east side of the county, and the three year county-wide rotation will begin again during 2007 on the west side of the county.
- The Township completed the salt storage building during 2005 that was begun during 2004. Half was paid at the end of 2004 and the final payment took place in the beginning of 2005 upon completion.
- The Township continued to provide Health Insurance for the one full-time employee with the employee having 10% of the health insurance premium deducted from his pay check once a month.
- The Fire and Ambulance Levy was voted on during the November 2005 election and was passed.

Using the Basic Financial Statements

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

Report Components

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

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Township as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

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

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Township as a Whole

The statement of net assets and the statement of activities reflect how the Township did financially during 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances of the governmental activities of the Township at year end. The statement of activities compares cash disbursements with program receipts for each governmental program activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Township's general receipts.

These statements report the Township's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Township's financial health. Over time, increases or decreases in the Township's cash position is one indicator of whether the Township's financial health is improving or deteriorating. When evaluating the Township's financial condition, you should also consider other non-financial factors as well such as the Township's property tax base, the condition of the Township's capital assets and infrastructure, the extent of the Township's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, the Township discloses a single activity – governmental activities. All of the Township's basic services are reported here, including fire protection, emergency medical services, cemetery maintenance, and road maintenance. State and federal grants and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Reporting the Township's Most Significant Funds

Fund financial statements provide detailed information about the Township's major funds – not the Township as a whole. The Township establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Township are reported as in governmental category.

Governmental Funds – All of the Township's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Township's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Township's programs. The Township's significant governmental funds are presented on the financial statements in separate columns. The information for non-major funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Township's major governmental funds are the General Fund, Gasoline Tax Fund, Road and Bridge Fund, and Fire District Fund. The programs reported in governmental funds are related to those reported in the entity-wide statements.

The Township as a Whole

Table 1 provides a summary of the Township's net assets for 2005 compared to 2004 on a cash basis:

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$395,941	\$442,826
Total Assets	<u>395,941</u>	<u>442,826</u>
Net Assets		
Restricted for:		
Permanent Fund	15,739	15,511
Other Purposes	151,725	194,823
Unrestricted	228,477	232,492
Total Net Assets	<u>\$395,941</u>	<u>\$442,826</u>

As mentioned previously, net assets of governmental activities decreased \$46,885 during 2005. The primary reasons contributing to the decreases in cash balances are as follows:

- The Township had the majority of the Township roads resurfaced costing in excess of \$100,000.
- During 2005, the Township made the final half payment on a salt storage building in the amount over \$9,000.
- Health insurance was provided for the one full-time employee with 10% of the premium deducted from the employee's paycheck once a month.

Table 2 reflects the changes in net assets during 2005. Since the Township did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

**(Table 2)
Changes in Net Assets**

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	19,836
Operating Grants and Contributions	<u>94,536</u>
Total Program Receipts	114,372
General Receipts:	
Property and Other Local Taxes	130,920
Special Assessments	
Grants and Entitlements Not Restricted to Specific Programs	39,184
Interest	11,170
Miscellaneous	<u>398</u>
Total General Receipts	181,672
Total Receipts	296,044
Disbursements:	
General Government	58,281
Public Safety	39,843
Public Works	211,257
Health	21,229
Capital Outlay	<u>12,319</u>
Total Disbursements	<u>342,929</u>
Increase (Decrease) in Net Assets	(46,885)
Net Assets, January 1, 2005	<u>442,826</u>
Net Assets, December 31, 2005	<u><u>\$395,941</u></u>

Program receipts represent a little more than a third of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money and building permits and inspection fees.

General receipts represent 61 percent of the Township's total receipts, and of this amount, 72 percent are local taxes. State and federal grants and entitlements also make up a significant portion of the Township's general receipts (22 percent). Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Township and the support services provided for the other Township activities. These include the costs of the Board, and the fiscal officer, as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs.

Public Safety is the costs of fire protection and emergency medical services; and Public Works is the cost of maintaining the roads.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Governmental Activities

If you look at the Statement of Activities on page 10 you will see that the first column lists the major services provided by the Township. The next column identifies the costs of providing these services. The major program disbursement for governmental activities is for Public Works, which account for 60 percent of all governmental disbursements. General government also represents a significant cost, about 16 percent. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Township that must be used to provide a specific service. The net (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

**(Table 3)
Governmental Activities**

	Total Cost Of Services 2005	Net Cost of Services 2005
General Government	\$58,281	(\$50,156)
Public Works	211,257	(119,287)
Public Safety	39,843	(35,935)
Health	21,229	(10,860)
Basic Utilities		
Transportation		
Capital Outlay	12,319	(12,319)
Principal Retirement		
Interest and Fiscal Charges		
Total Expenses	<u>\$342,929</u>	<u>(\$228,557)</u>

The dependence upon general receipts is apparent as over 67 percent of governmental activities are supported through these general receipts.

The Township's Funds

Total governmental funds had receipts of \$296,044 and disbursements of \$342,929. The greatest change within governmental funds occurred within the Gasoline Tax and Road & Bridge Funds. The fund balance of the Gasoline Tax Fund decreased \$31,799 as the result of the increased costs for the resurfacing the majority of the Township's roads.

General Fund Budgeting Highlights

The Township's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. Final disbursements were budgeted at \$259,900 while actual disbursements were \$79,134.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED
(Continued)**

Current Issues

The challenge for all Governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base. Our financial forecast predicts a reduction of Local Government funds in the coming years; therefore, the administration will continue to make every revenue dollar work best for the township.

Contacting the Township's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to reflect the Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Jeanie Crabtree, Fiscal Officer, Salem Township, 3293 Clark Road, Urbana, Ohio 43078.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
DECEMBER 31, 2005**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$395,941</u>
Total Assets	<u><u>395,941</u></u>
Net Assets	
Restricted for:	
Permanent Fund:	
Expendable	9,321
Non-expendable	6,418
Other Purposes	151,725
Unrestricted	<u>228,477</u>
Total Net Assets	<u><u>\$395,941</u></u>

See accompanying notes to the basic financial statements.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes Fund Balances</u>
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
General Government	\$58,281	\$8,125		(\$50,156)
Public Safety	39,843		3,908	(35,935)
Public Works	211,257	1,342	\$90,628	(119,287)
Health	21,229	10,369		(10,860)
Capital Outlay	12,319			(12,319)
Total Governmental Activities	<u>\$342,929</u>	<u>\$19,836</u>	<u>\$94,536</u>	<u>(228,557)</u>
General Receipts				
Property Taxes				130,920
Grants and Entitlements not Restricted to Specific Programs				39,184
Earnings on Investments				11,170
Miscellaneous				398
Total General Receipts				<u>181,672</u>
Change in Net Assets				(46,885)
Net Assets Beginning of Year				<u>442,826</u>
Net Assets End of Year				<u>\$395,941</u>

See accompanying notes to the basic financial statements.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**STATEMENT OF CASH BASIS ASETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General</u>	<u>Gasoline Tax</u>	<u>Road and Bridge</u>	<u>Fire District</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets						
Equity in Pooled Cash and Cash Equivalents	<u>\$228,477</u>	<u>\$61,924</u>	<u>\$33,405</u>	<u>\$28,874</u>	<u>\$43,261</u>	<u>\$395,941</u>
Total Assets	<u>228,477</u>	<u>61,924</u>	<u>33,405</u>	<u>28,874</u>	<u>43,261</u>	<u>395,941</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances			4,800			4,800
Unreserved, Reported in:						
General Fund	228,477					228,477
Special Revenue Funds		61,924	28,605	28,874	27,522	146,925
Pemanent Funds					15,739	15,739
	<u>\$228,477</u>	<u>\$61,924</u>	<u>\$33,405</u>	<u>\$28,874</u>	<u>\$43,261</u>	<u>\$395,941</u>

See accompanying notes to the basic financial statements.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGE IN CASH BASIS FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>General</u>	<u>Gasoline Tax Fund</u>	<u>Road & Bridge Fund</u>	<u>Fire District Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts						
Property and Other Local Taxes	\$31,075		\$57,278	\$42,567		\$130,920
Licenses, Permits and Fees	8,125				5,068	13,193
Intergovernmental	27,394	70,512	5,986	3,923	25,907	133,722
Special Assessments					1,342	1,342
Interest	8,469	2,317			384	11,170
Other	56		341		5,300	5,697
Total Cash Receipts	<u>75,119</u>	<u>72,829</u>	<u>63,605</u>	<u>46,490</u>	<u>38,001</u>	<u>296,044</u>
Cash Disbursements						
Current:						
General Government	58,281					58,281
Public Safety				39,843		39,843
Public Works		104,628	62,467		44,162	211,257
Health	11,126				10,103	21,229
Capital Outlay	9,727		2,592			12,319
Total Cash Disbursements	<u>79,134</u>	<u>104,628</u>	<u>65,059</u>	<u>39,843</u>	<u>54,265</u>	<u>342,929</u>
Receipts Over (Under) Disbursements	(4,015)	(31,799)	(1,454)	6,647	(16,264)	(46,885)
Fund Balances Beginning of Year	<u>232,492</u>	<u>93,723</u>	<u>34,859</u>	<u>22,227</u>	<u>59,525</u>	<u>442,826</u>
Fund Balances End of Year	<u>\$228,477</u>	<u>\$61,924</u>	<u>\$33,405</u>	<u>\$28,874</u>	<u>\$43,261</u>	<u>\$395,941</u>

See accompanying notes to the basic financial statements.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Cash Receipts				
Property and Other Local Taxes	\$33,000	\$33,000	\$31,075	(\$1,925)
Licenses, Permits and Fees	8,800	8,800	8,125	(675)
Intergovernmental	25,075	25,075	27,394	2,319
Earnings on Investments	1,100	1,100	8,469	7,369
Miscellaneous	26	26	56	30
Total Cash Receipts	<u>68,001</u>	<u>68,001</u>	<u>75,119</u>	<u>7,118</u>
Cash Disbursements				
Current:				
General Government	89,700	89,700	58,281	31,419
Public Works	13,000	13,000		13,000
Health	20,000	20,000	11,126	8,874
Capital Outlay	<u>137,000</u>	<u>137,200</u>	<u>9,727</u>	<u>127,473</u>
Total Cash Disbursements	<u>259,700</u>	<u>259,900</u>	<u>79,134</u>	<u>180,766</u>
Receipts Over (Under) Disbursements	(191,699)	(191,899)	(4,015)	187,884
Other Financing (Uses)				
Other Financing Uses	<u>(6,117)</u>	<u>(6,117)</u>		<u>6,117</u>
Net Change in Fund Balance	(197,816)	(198,016)	(4,015)	194,001
Fund Balance Beginning of Year	<u>232,492</u>	<u>239,492</u>	<u>232,492</u>	
Fund Balance End of Year	<u><u>\$34,676</u></u>	<u><u>\$41,476</u></u>	<u><u>\$228,477</u></u>	<u><u>\$194,001</u></u>

See accompanying notes to the basic financial statements.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL-BUDGET BASIS
GASOLINE TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Cash Receipts				
Intergovernmental	\$55,000	\$55,000	\$70,512	\$15,512
Earnings on Investments	451	451	2,317	1,866
Total Cash Receipts	<u>55,451</u>	<u>55,451</u>	<u>72,829</u>	<u>17,378</u>
Cash Disbursements				
Current:				
Public Works	113,939	113,939	104,628	9,311
Capital Outlay	31,000	31,000		31,000
Total Cash Disbursements	<u>144,939</u>	<u>144,939</u>	<u>104,628</u>	<u>40,311</u>
Net Change in Fund Balance	(89,488)	(89,488)	(31,799)	57,689
Fund Balance Beginning of Year	<u>93,723</u>	<u>93,723</u>	<u>93,723</u>	
Fund Balance End of Year	<u><u>\$4,235</u></u>	<u><u>\$4,235</u></u>	<u><u>\$61,924</u></u>	<u><u>\$57,689</u></u>

See accompanying notes to the basic financial statements.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Cash Receipts				
Property and Other Local Taxes	\$62,000	\$62,000	\$57,278	(\$4,722)
Intergovernmental	5,000	5,000	5,986	986
Miscellaneous	920	920	341	(579)
Total Cash Receipts	<u>67,920</u>	<u>67,920</u>	<u>63,605</u>	<u>(4,315)</u>
Cash Disbursements				
Current:				
Public Works	85,100	85,129	67,267	17,862
Capital Outlay	27,500	27,500	2,592	24,908
Total Cash Disbursements	<u>112,600</u>	<u>112,629</u>	<u>69,859</u>	<u>42,770</u>
Receipts Over (Under) Disbursements	<u>(44,680)</u>	<u>(44,709)</u>	<u>(6,254)</u>	<u>38,455</u>
Other Financing Sources (Uses)				
Transfers In	6	6		(6)
Transfers Out	(451)	(451)		451
Total Other Financing Sources (Uses)	<u>(445)</u>	<u>(445)</u>		<u>445</u>
Net Change in Fund Balance	(45,125)	(45,154)	(6,254)	38,900
Fund Balance Beginning of Year	<u>34,859</u>	<u>34,859</u>	<u>34,859</u>	
Fund Balance End of Year	<u>(\$10,266)</u>	<u>(\$10,295)</u>	<u>\$28,605</u>	<u>\$38,900</u>

See accompanying notes to the basic financial statements.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - BUDGET BASIS
FIRE DISTRICT FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Cash Receipts				
Property and Other Local Taxes	\$42,000	\$42,000	\$42,567	\$567
Intergovernmental	3,600	3,600	3,923	323
Miscellaneous	28	28		(28)
	<u>45,628</u>	<u>45,628</u>	<u>46,490</u>	<u>862</u>
Cash Disbursements				
Current:				
Public Safety	<u>70,175</u>	<u>70,175</u>	<u>39,843</u>	<u>30,332</u>
Total Cash Disbursements	<u>70,175</u>	<u>70,175</u>	<u>39,843</u>	<u>30,332</u>
Net Change in Fund Balance	(24,547)	(24,547)	6,647	31,194
Fund Balance Beginning of Year	<u>22,227</u>	<u>22,227</u>	<u>22,227</u>	
Fund Balance End of Year	<u>(\$2,320)</u>	<u>(\$2,320)</u>	<u>\$28,874</u>	<u>\$31,194</u>

See accompanying notes to the basic financial statements.

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. REPORTING ENTITY

Salem Township, Champaign County, (the "Township"), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township also has an elected Township Fiscal Officer.

The reporting entity is comprised of the primary government. There are no other entities that are required to be reported to ensure that the financial statements are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, maintenance of Township roads and bridges, and cemetery maintenance. The Township contracts with Urbana Township and the Village of West Liberty for fire protection and emergency medical services. Law enforcement protection is provided by the Champaign County Sheriff's Department.

The residents of the Township support the Mt. Carmel Cemetery through a tax levy. The Cemetery is directed by an appointed three-member Board of Trustees. The Board is appointed by Salem and Wayne Townships.

B. Component Units

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Township is obligated for the debt of the organization. The Township is also financially accountable for any organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Township, are accessible to the Township and are significant in amount to the Township. The Township does not have any component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Township's accounting policies.

A. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Township has no business-type activities.

The statement of net assets presents the cash balance of the governmental activities of the Township at year end. The statement of activities compares disbursements with program receipts for each of the Township's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Township is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program and receipts of interest earned on grants that is required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Township's general receipts.

2. Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

B. Fund Accounting

The Township uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Township are grouped into the governmental category.

1. Governmental Funds

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other non-exchange transactions as governmental funds. The Township's major governmental funds are the General Fund, Road and Bridge Fund, the Gasoline Tax Fund, and the Fire District Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio. The Road and Bridge Fund receive property tax money for constructing, maintaining, and repairing Township roads and bridges. The Gasoline Tax Fund receives gasoline tax money to pay for constructing, maintaining, and repairing Township roads. The Fire District Fund receives property tax money to maintain a fire protection service for the Township.

The other governmental funds of the Township account for grants and other resources whose use is restricted to a particular purpose.

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

The Township's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Township's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township. The legal level of control has been established at the fund, department, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Township Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Township.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

E. Cash and Investments

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as 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 negative receipts (contra revenue), respectively.

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

During 2005, the Township invested in a Certificate of Deposit and savings accounts for the Cemetery Bequest Fund, and the Township's checking account at the Champaign National Bank in Urbana, Ohio. The checking account began to earn interest at the same rates of STAR Ohio by the second quarter of 2005, resulting in a greater amount of interest earned from prior years.

Interest earnings are allocated to Township funds according to State statutes. Interest receipts credited to the General Fund during 2005 was \$8,469 which includes \$2,117 assigned from other Township funds.

F. Inventory and Prepaid Items

The Township reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

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

H. Employer Contributions to Cost-Sharing Pension Plans

The Township recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

I. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted assets for the Salem Township include tax levy monies for fire protection and road and bridge maintenance, motor vehicle license fund money, and gasoline tax money. The Township's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available. At December 31, 2005, the following represent the amount restricted by enabling legislation: fire protection levy - \$28,874, road and bridge levy - \$33,405.

J. Fund Balance Reserves

The Township reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have established for encumbrances.

3. CHANGE IN BASIS OF ACCOUNTING

Last year the Township reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Township has implemented the cash basis of accounting described in Note 2. The fund financial statements now present each major fund in a separate column with non-major funds aggregated and presented in a single column, rather than a column for each fund type.

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

4. BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis is presented for the General Fund, the Road and Bridge Fund, the Gasoline Tax Fund, and the Fire District Fund and are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

5. DEPOSITS AND INVESTMENTS

Monies held by the Township are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Township treasury. Active monies must be maintained either as cash in the Township treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Trustees have identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Township can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Protection of the Township's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), or by a collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Township, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$322,190 of the Township's bank balance of \$422,190 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

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

6. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received during 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. 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. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received during 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received during 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

6. PROPERTY TAXES (Continued)

Tangible personal property tax receipts received during 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received during 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Township operations for the year ended December 31, 2005, was \$.0013 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property		
Residential	\$	26,919,710
Agricultural		8,222,040
Commercial/Industry/Mineral		2,193,080
Public Utility Property		
Real		
Personal		3,036,850
Tangible Personal Property		2,483,836
Total Assessed Value	\$	<u>42,855,516</u>

7. RISK MANAGEMENT

Risk Pool Membership

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 Government 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. OTARMA is a member of the American Public Entity Excess Pool (APEEP).

Member townships pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Townships can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

7. RISK MANAGEMENT (Continued)

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Members may withdraw on each anniversary of the date they joined OTARMA. They must provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	(12,344,576)	(11,086,379)
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	(1,406,031)	(543,176)
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

The Casualty Coverage assets and retained earnings above include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment. The Township's share of these unpaid claims is approximately \$43,938.

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

8. DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

The Township participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings.

The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional plan for the years ended December 31, 2005, 2004, and 2003 were \$10,161, \$9,995, and \$9,509 respectively. The full amount has been contributed for 2005, 2004 and 2003.

9. POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4 percent of covered payroll was the portion that was used to fund health care.

**SALEM TOWNSHIP
CHAMPAIGN TOWNSHIP**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 and 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund post-employment benefits were \$2,932. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which allow additional funds to be allocated to the health care plan.

10. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Township are subject to audit and adjustment by the grantor, principally the federal government. Grantors may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



Auditor of State Betty Montgomery

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

Salem Township
Champaign County
3293 Clark Road
Urbana, Ohio 43078

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salem Township, Champaign County, (the Township), as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated October 18, 2006, which was qualified since the Township could not support classifying the Cemetery Bequest Funds as Permanent Funds. In addition, we noted the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. We also noted that the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2004-002 listed above to be a material weakness.

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 matter which we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Township's management dated October 18, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.



Betty Montgomery
Auditor of State

October 18, 2006

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005**

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

FINDING NUMBER 2005-001

Noncompliance Citation

Ohio Rev. Code Section 5575.01 (A) states that in the maintenance and repair of roads, the board of township trustees may proceed either by contract or force account, but, unless the exemption specified in division (C) of this section applies, if the board wishes to proceed by force account, it first shall cause the county engineer to complete the force account assessment form developed by the auditor of state under section 117.16 of the Revised Code. Except as otherwise provided in sections 505.08 and 505.101 of the Revised Code, when the board proceeds by contract, the contract shall, if the amount involved exceeds forty-five thousand dollars, be let by the board to the lowest responsible bidder after advertisement for bids once, not later than two weeks, prior to the date fixed for the letting of the contract, in a newspaper published in the county and of general circulation within the township or, if no newspaper is published in the county, in a newspaper having general circulation in the township. If the amount involved is forty-five thousand dollars or less, a contract may be let without competitive bidding, or the work may be done by force account. Such a contract shall be performed under the supervision of a member of the board or the township road superintendent.

The Champaign County Engineer completed a project assessment form for a Township road project during 2005. The total estimated cost of the project was \$177,000. The Township proceeded to hire the County Engineer to complete \$92,000 of this project without following the bid procedures required by Ohio Rev. Code Section 5575.01 (A).

The Township should review the Ohio Compliance Supplement, the Ohio Revised Code, and Auditor of State Bulletins to gain a better understanding of bid procedures.

OFFICIAL'S RESPONSE

We did not receive a response from Officials to this finding.

FINDING NUMBER 2005-002

Reportable Condition/Material Weakness

Presentation of Trust Funds

To help assure accountability for trust funds and the correct classification for financial reporting, an entity should maintain the original trust agreements. By maintaining these agreements, an entity will be able to identify whether or not there is principal that must be maintained and whether or not the trust is to benefit the entity or other organizations, governments, or individuals. The Township presented Cemetery Bequest Funds as Permanent Funds without basing this decision on the original trust agreements. Without the original trust agreements it is not possible to determine whether the Cemetery Bequest Funds should be presented as Permanent Funds (benefit to the Township) or Private Purpose Trust Fund (benefit to other organizations, governments, or individuals). In addition, the lack of trust agreements may be an indication these funds can be completely spent which would result in the Funds being classified as Special Revenue Funds. As a result, it could not be determined if the financial statements were accurately stated, which resulted in a qualified opinion on the Township's financial statements.

**FINDING NUMBER 2005-002
(Continued)**

The Township should obtain copies of the documentation establishing these trust funds to identify the original principal and to determine the purpose of each Trust. The Township should consult Legal Counsel for advice if documentation cannot be found to support the existence of a trust agreement, whether expendable or nonexpendable. In addition, the Township should review accounting literature to

The Township should obtain copies of the documentation establishing these trust funds to identify the original principal and to determine the purpose of each Trust. The Township should consult Legal Counsel for advice if documentation cannot be found to support the existence of a trust agreement, whether expendable or nonexpendable. In addition, the Township should review accounting literature to assist in the correct classification of these funds.

OFFICIAL'S RESPONSE

The Township has contacted the Champaign County Prosecutor, the Bank that holds the trust accounts, and the Champaign County Probate Court in an attempt to find the trust agreements. The Township has now become aware of cemetery records at the Champaign County Library and plan to search those records for the trust agreements. The Township plans to continue at the best of our ability and resources to find original documentation or account for the exhaustion of not finding such documents. If the original documentation cannot be found the Township will again seek guidance from the Champaign County Prosecutor as how to best proceed with the cemetery trusts.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2003-001	Incorrect presentation and reporting of Trust Fund activity.	No	Partially corrected. Repeated as finding 2005-002



**Auditor of State
Betty Montgomery**

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800-282-0370

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**SALEM TOWNSHIP
CHAMPAIGN 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 28, 2006**