



Mary Taylor, CPA
Auditor of State

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

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Mary Taylor, CPA
Auditor of State

Salem Township
Champaign County
3293 Clark Road
Urbana, Ohio 43078

To the Board of Trustees:

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 19, 2008

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Mary Taylor, CPA

Auditor of State

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 Salem Township, Champaign County, (the Township), as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, except for the effects of not providing support for the classification of the Cemetery Bequest Funds as Permanent Funds, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Salem Township, Champaign County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

For the years ended December 31, 2007 and 2006, the Township revised its financial presentation from that comparable to the requirements of *Governmental Accounting Standard* No. 34, Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments to a format the Auditor of State prescribes or permits.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2008, 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.



Mary Taylor, CPA
Auditor of State

August 19, 2008

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Cash Receipts:				
Property and Other Local Taxes	\$33,034	\$111,533		\$144,567
Licenses, Permits, and Fees	1,300	8,370		9,670
Intergovernmental	26,170	120,638		146,808
Special Assessments	315	1,323		1,638
Earnings on Investments	20,589	9,052	\$287	29,928
Miscellaneous	354	10,835		11,189
Total Cash Receipts	<u>81,762</u>	<u>261,751</u>	<u>287</u>	<u>343,800</u>
Cash Disbursements:				
Current:				
General Government	85,216			85,216
Public Safety		41,982		41,982
Public Works		136,588		136,588
Health	6,285	16,480		22,765
Total Cash Disbursements	<u>91,501</u>	<u>195,050</u>		<u>286,551</u>
Total Receipts Over/(Under) Disbursements	<u>(9,739)</u>	<u>66,701</u>	<u>287</u>	<u>57,249</u>
Other Financing Receipts / (Disbursements):				
Advances-In	300	300		600
Advances-Out	(300)	(300)		(600)
Other Financing Sources		2,300		2,300
Total Other Financing Receipts / (Disbursements)		<u>2,300</u>		<u>2,300</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(9,739)	69,001	287	59,549
Fund Cash Balances, January 1	<u>309,448</u>	<u>261,047</u>	<u>16,012</u>	<u>586,507</u>
Fund Cash Balances, December 31	<u>\$299,709</u>	<u>\$330,048</u>	<u>\$16,299</u>	<u>\$646,056</u>
Reserve for Encumbrances, December 31	<u>\$198</u>			<u>\$198</u>

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

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Cash Receipts:				
Property and Other Local Taxes	\$29,579	\$95,041		\$124,620
Licenses, Permits, and Fees	6,850	6,970		13,820
Intergovernmental	144,966	117,818		262,784
Special Assessments		1,320		1,320
Earnings on Investments	18,564	5,853	\$273	24,690
Miscellaneous	162	4,344		4,506
Total Cash Receipts	<u>200,121</u>	<u>231,346</u>	<u>273</u>	<u>431,740</u>
Cash Disbursements:				
Current:				
General Government	85,570			85,570
Public Safety		21,434		21,434
Public Works	845	85,545		86,390
Health	12,489	15,046		27,535
Capital Outlay	20,245			20,245
Total Cash Disbursements	<u>119,149</u>	<u>122,025</u>		<u>241,174</u>
Total Receipts Over Disbursements	<u>80,972</u>	<u>109,321</u>	<u>273</u>	<u>190,566</u>
Fund Cash Balances, January 1	<u>228,476</u>	<u>151,726</u>	<u>15,739</u>	<u>395,941</u>
Fund Cash Balances, December 31	<u>\$309,448</u>	<u>\$261,047</u>	<u>\$16,012</u>	<u>\$586,507</u>

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

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Salem Township, Champaign County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Village of West Liberty and Urbana Township to provide fire services and the Village of West Liberty to provide emergency medical services. The Champaign County Sheriff's department provides security of persons and property.

The residents of the Township support the Mount Carmel Joint 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. This relationship is further discussed in Note 4.

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

B. Accounting Basis

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

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

C. Cash and Investments

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

The Township values certificate of deposit at cost.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Road and Bridge Fund - This fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges.

Gasoline Tax Fund - This fund receives gasoline tax money to pay for constructing, maintaining, and repairing Township roads.

Fire District Fund – This fund receives tax levy money to pay for contracting fire and EMS services.

3. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant permanent fund:

Cemetery Bequest Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2007 and 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

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

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2007	2006
Demand deposits	\$640,456	\$580,907
Certificates of deposit	5,600	5,600
Total deposits	\$646,056	\$586,507

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Township.

At December 31, 2007, \$7,112 of the deposits were not insured or collateralized, contrary to Ohio law. At December 31, 2006, \$494,828 of the deposits were not insured or collateralized, contrary to Ohio law.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$75,333	\$82,062	\$6,729
Special Revenue	207,654	264,351	56,697
Permanent	260	287	27
Total	\$283,247	\$346,700	\$63,453

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$384,781	\$91,999	\$292,782
Special Revenue	468,701	195,350	273,351
Permanent	9,854	9,854	9,854
Total	\$863,336	\$287,349	\$575,987

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$152,667	\$200,121	\$47,454
Special Revenue	201,704	231,346	29,642
Permanent	273	273	273
Total	\$354,371	\$431,740	\$77,369

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$381,143	\$119,149	\$261,994
Special Revenue	353,430	122,025	231,405
Permanent	9,321		9,321
Total	\$743,894	\$241,174	\$502,720

4. PROPERTY TAX

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

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

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

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

The residents of the Township support the Mount Carmel Joint Cemetery through a voted millage tax levy. During 2007 and 2006, the Cemetery received \$4,389 and \$4,259 respectively in tax revenue, including the related homestead and rollback revenue.

5. RETIREMENT SYSTEMS

The Township's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5% and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. RISK MANAGEMENT

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

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

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

A. Casualty Coverage

For an occurrence prior to January 1, 2006, 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. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust PEP'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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

B. 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.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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 government.

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

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. RISK MANAGEMENT (Continued)

C. 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, 2007 and 2006:

	2007	2006
Assets	\$43,210,703	\$42,042,275
Liabilities	(13,357,837)	(12,120,661)
Net Assets	\$29,852,866	\$29,921,614

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$3,640. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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

Contributions to OTARMA	
2005	\$5,017
2006	\$4,880
2007	\$3,872

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they 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 contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.



Mary Taylor, CPA

Auditor of State

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

Salem Township
Champaign County
3293 Clark Road
Urbana, Ohio 43078

To the Board of Trustees:

We have audited the financial statements of Salem Township, Champaign County, (the Township), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 19, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted 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. 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Township's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting as Finding Number 2007-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

**Internal Control over Financial Reporting
(Continued)**

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did identify a deficiency in internal control over financial reporting that we consider a material weakness, as defined above, as finding number 2007-002.

We also noted certain matters that we reported to the Township's management in a separate letter dated August 19, 2008.

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 we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2007-001.

We also noted certain noncompliance or other matters that we reported to the Township's management in a separate letter dated August 19, 2008.

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

August 19, 2008

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Noncompliance Citation

Ohio Rev. Code Section 135.18(A) states the treasurer, before making the initial deposit in a public depository pursuant to an award made under sections 135.01 to 135.21 of the Revised Code, except as provided in section 135.144 of the Revised Code, shall require the institution designated as a public depository to pledge to and deposit with the treasurer, as security for the repayment of all public moneys to be deposited in the public depository during the period of designation pursuant to the award, eligible securities of aggregate market value equal to the excess of the amount of public moneys to be at the time so deposited, over and above the portion or amount of such moneys as is at that time insured by the federal deposit insurance corporation or by any other agency or instrumentality of the federal government. In the case of any deposit other than the initial deposit made during the period of designation, the amount of the aggregate market value of securities required to be pledged and deposited shall be equal to the difference between the amount of public moneys on deposit in such public depository plus the amount to be so deposited, minus the portion or amount of the aggregate as is at the time insured as provided in this section. The treasurer may require additional eligible securities to be deposited to provide for any depreciation which may occur in the market value of any of the securities so deposited.

The Township and their financial institution were unable to provide a pledged security statement as of December 31, 2006. There was \$494,828 in excess of FDIC at December 31, 2006, in which no documentation of pledged securities could be obtained. Also, the December 31, 2007 pledged securities, held by the Township's financial institution, did not sufficiently cover the Township's amount on deposit in excess of FDIC by \$7,112.

The Township should notify their financial institution of this requirement and the lack of sufficient pledged securities. The Township should request quarterly pledged security statements from their financial institution to verify that the required 105% coverage is properly held to meet this requirement.

Officials' Response:

The Salem Township Board of Trustees recognizes the Auditor's finding that the pooled collateral at the Champaign National Bank is insufficient to cover our accounts.

This is not what the Trustees thought from previous audits; however, since the bank merged with Citizens Banking, the problem has come to light.

We will work with the bank to insure the pooled collateral will cover the Salem Township account balances in the future.

FINDING NUMBER 2007-002

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 in perpetuity 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.

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 located 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.

Officials' Response:

The Salem Township Board of Trustees has no original documentation on file for the 4 Cemetery Trust accounts at Champaign National Bank. The Clerk prior to my taking office on April 1, 2004, had no record of the trusts, and she was Clerk for 27 years.

I have contacted the Champaign National Bank, and there is no record of the trusts, nor are they able to establish a start date for the 4 trust accounts. I contacted the Champaign County Probate Court and there are no estates, wills, or trusts under any of the 4 names of the 4 cemetery trusts.

The Champaign Co. Asst. Prosecutor, Mr. Scott Shockling, has offered a few suggestions on dissolving the trusts: contact the bank for the original documentation, and contact probate court to see if any of the estates of these trusts came through Champaign Co. Probate Court. I have exhausted those efforts suggested. I have also tried to locate cemetery deeds in the same names of these 4 trusts with no success, and I have walked the Kings Creek Cemetery in hopes of locating monuments with the names of these 4 trusts with no success.

The Salem Township Board of Trustees plans to work with the Champaign County Prosecutors Office to dissolve these trusts and apply the money to the Cemetery Fund for the general caretaking of the cemetery.

**SALEM TOWNSHIP
CHAMPAIGN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Rev. Code Section 5575.01(A) – did not follow bidding procedures for a force account	Yes	
2005-002	Presentation of Trust Funds	No	Repeated as Finding Number 2007-002



Mary Taylor, CPA
Auditor of State

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
SEPTEMBER 25, 2008