

***FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2006 & 2005

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



Mary Taylor, CPA

Auditor of State

Board of Trustees
Fallsbury Township
10181 Cullison Road
Frazeysburg, Ohio 43822

We have reviewed the *Report of Independent Accountants* of Fallsbury Township, Licking County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Fallsbury Township is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 24, 2007

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FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
Audit Report
For the years ended December 31, 2006 & 2005

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REPORT OF INDEPENDENT ACCOUNTANTS

Fallsbury Township
Licking County
10181 Cullison Road
Fazeysburg, Ohio 43822

To the Board of Trustees,

We have audited the accompanying financial statements of Fallsbury Township, Licking County (the Township), as of and for the years ended December 31, 2006 & 2005. 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 obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepared these financial statements on a basis of 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 financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to format its financial statement presentation and make other changes effective for the years ended December 31, 2006 & 2005. Instead of combined funds, the accompanying financial statement present for 2006 and 2005, the revisions requires presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2006 and 2005. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has decided not to reformat their statements. Since the Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply that 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, 2006 & 2005 do not present fairly, in conformity with the accounting principles generally accepted in the United States of America, the financial position of the Township as December 31, 2006 & 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserve for encumbrances of Fallsbury Township, Licking County, as of December 31, 2006 & 2005, and its combined cash receipts and disbursements and changes in fund cash balances for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also require the Township to include Management's Discussion and Analysis for the years ended December 31, 2006 & 2005. 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 a report dated August 27, 2007 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, grant agreements and other matters. While we did not opine on the internal controls over financial reporting or on the compliance, that the report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. The report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should be read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
August 27, 2007

FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
COMBINED STATEMENT RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2006

	Governmental Fund Types		(Memorandum)
	General	Special Revenue	Only Total
Cash Receipts:			
Property Taxes and Other Local Taxes	\$ 28,242	\$ 58,690	\$ 86,932
Licenses, Permits, and Fees	675	-	675
Intergovernmental	33,661	107,776	141,437
Earnings on Investments	1,829	970	2,799
Miscellaneous	817	-	817
Total Cash Receipts	65,224	167,436	232,660
Cash Disbursements:			
General Government	53,699	-	53,699
Public Safety	-	41,316	41,316
Public Works	-	78,702	78,702
Health	3,768	-	3,768
Capital Outlay	1,455	20,462	21,917
Total Cash Disbursements	58,922	140,480	199,402
Total Receipts Over/(Under)			
Disbursements	6,302	26,956	33,258
Other Financing Receipts/(Uses):			
Other Financing Uses	(27)	-	(27)
Total Other Financing Sources/(Uses)	(27)	-	(27)
Total Receipts Over/(Under)			
Disbursements and Other Financing Uses	6,275	26,956	33,231
Fund Cash Balance, January 1, 2006	28,040	157,918	185,958
Fund Cash Balance, December 31, 2006	\$ 34,315	\$ 184,874	\$ 219,189

See Accompanying Notes to the Financial Statements

FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
COMBINED STATEMENT RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2005

	<u>Governmental Fund Types</u>		<u>(Memorandum)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Only) Total</u>
Cash Receipts:			
Property Taxes and Other Local Taxes	\$ 24,679	\$ 55,248	\$ 79,927
Licenses, Permits, and Fees	550	-	550
Intergovernmental	32,476	90,218	122,694
Earnings on Investments	1,269	724	1,993
Miscellaneous	167	-	167
Total Cash Receipts	59,141	146,190	205,331
Cash Disbursements:			
General Government	51,913	-	51,913
Public Safety	-	28,765	28,765
Public Works	-	97,254	97,254
Health	3,357	-	3,357
Total Cash Disbursements	55,270	126,019	181,289
Total Receipts Over/(Under) Disbursements	3,871	20,171	24,042
Fund Cash Balance, January 1, 2005	24,169	137,747	161,916
Fund Cash Balance, December 31, 2005	\$ 28,040	\$ 157,918	\$ 185,958
Encumbrances, December 31, 2005	\$ 610	\$ -	\$ 610

See Accompanying Notes to the Financial Statements

FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 & 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. **DESCRIPTION OF THE ENTITY**

Fallsbury Township, Licking County (the Township) is a body corporate and politic established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three member Board of Trustees. The Township provides road and bridge maintenance and cemetery maintenance. The Township contracts with the Mary Ann Township Volunteer Fire Department for fire protection and ambulance services.

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

B. **BASIS OF ACCOUNTING**

The Township prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipt and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved.)

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

C. **CASH**

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. **FUND ACCOUNTING**

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

FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 & 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** – (continued)

D. **FUND ACCOUNTING** – (continued)

Governmental Fund Types:

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

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

- Gasoline Tax Fund-Receives gas tax money to repair streets and roads.
- Road and Bridge Fund-Receives tax levy money for repairs to roads and bridges.
- Special Levy Fund-Receives tax levy money for payment of the fire contract.

E. **BUDGETARY PROCESS**

A budget of estimated cash receipts and disbursements is prepared by the Clerk, approved by the Township Board of Trustees, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

1. **Estimated Resources**

The county auditor calculates the estimated revenues available to the Township. The county auditor prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Township. The certificate is approved by the county budget commission and sent to the Township Clerk by September 1.

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

On or about January 1, the Clerk sends the county auditor a certificate which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected revenue increases or the Clerk identifies decreases in revenue.

Budget receipts, as shown in Note 4, do not include the unencumbered fund balances as of January 1, 2005 and 2006. However, those fund balances are available for appropriation.

FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 & 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)**

E. **BUDGETARY PROCESS – (continued)**

2. **Appropriations**

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

3. **Encumbrances**

The Township is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The sum of expenditures and encumbrances may not exceed appropriated totals at any level of budgetary control. The legal level of control is the object level.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated.

F. **PROPERTY, PLANT AND EQUIPMENT**

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

G. **ACCUMULATED LEAVE**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 & 2005

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	<u>2006</u>	<u>2005</u>
Demand Deposits	\$ <u>219,189</u>	\$ <u>185,958</u>

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

3. PROPERTY TAX

Real property becomes a lien on January 1 proceeding the October 1 date for which rates are adopted by Township Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 & 2005

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted Vs. Actual Receipts

<u>Fund</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General Fund	\$ 59,857	\$ 65,224	\$ 5,367
Special Revenue Funds	134,283	167,436	33,153
Total	\$ 194,140	\$ 232,660	\$ 38,520

2006 Budgeted Vs. Actual Budgetary Basis Expenditures

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures</u>	<u>Variance</u>
General Fund	\$ 87,196	\$ 58,949	\$ 28,247
Special Revenue Funds	289,900	140,480	149,420
Total	\$ 377,096	\$ 199,429	\$ 177,667

2005 Budgeted Vs. Actual Receipts

<u>Fund</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General Fund	\$ 56,476	\$ 59,141	\$ 2,665
Special Revenue Funds	127,157	146,190	19,033
Total	\$ 183,633	\$ 205,331	\$ 21,698

2005 Budgeted Vs. Actual Budgetary Basis Expenditures

<u>Fund</u>	<u>Total Appropriations</u>	<u>Total Expenditures</u>	<u>Variance</u>
General Fund	\$ 77,470	\$ 55,880	\$ 21,590
Special Revenue Funds	253,508	126,019	127,489
Total	\$ 330,978	\$ 181,899	\$ 149,079

FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 & 2005

5. RETIREMENT SYSTEM

The Ohio Public Employees Retirement System (OPERS) is a cost sharing, multiple employer defined benefit pension plan administered by the Ohio Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 1454 of the Ohio Revised Code. OPERS issues a stand-alone financial report.

The Ohio Revised code provides statutory authority for employees and employer contributions. The employee contribution rates are 8.5% for year 2005 and 9.0% for year 2006 of their gross salaries. For local government employer units, the rate was 13.55% of covered payroll for 2005 and 13.70% of covered payroll for 2006. The contribution rates are determined actuarially. The Township paid all contributions required through December 31, 2006.

6. RISK POOL MEMBERSHIP

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 provide 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 2006 & 2005 was \$1,901,127 and \$1,712,113, respectively.

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 to generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005:

FALLSBURY TOWNSHIP
LICKING COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 & 2005

6. RISK POOL MEMBERSHIP – (continued)

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$ 32,031,312	\$ 30,485,638
Liabilites	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained Earnings	<u>\$ 20,587,360</u>	<u>\$ 18,141,062</u>
<u>Property Coverage</u>	<u>2,006</u>	<u>2,005</u>
Assets	10,010,963	9,177,796
Liabilites	\$ <u>(676,709)</u>	\$ <u>(1,406,031)</u>
Retained Earnings	<u>9,334,254</u>	<u>7,771,765</u>

The casualty coverage assets and retained earnings above include approximately \$12.1 million and \$11.6 million of unpaid claims to be billed to approximately 958 member townships in the future, as of December 31, 2006 and 2005, respectively. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment.

7. CONTINGENT LIABILITES/SUBSEQUENT EVENTS

Management believes there are no pending claims or lawsuits.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Fallsbury Township
Licking County
10181 Cullison Road
Frazeyburg, Ohio 43822

To the Board of Trustees,

We have audited the financial statements of Fallsbury Township, Licking County, Ohio (the Township) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 27, 2007, wherein we noted that the Township followed accounting practices prescribed or permitted by the Auditor of State of Ohio. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion 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 the normal course of 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 accounting practices prescribed or permitted by the Auditor of State of Ohio such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the Township's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Township's internal control.

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 deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Township in a separate letter dated August 27, 2007.

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

Charles E. Harris & Associates, Inc.
August 27, 2007

**FALLSBURY TOWNSHIP
LICKING COUNTY
Schedule of Prior Audit Findings
For the Year Ended December 31, 2006 & 2005**

The prior audit report, for the years ending December 31, 2004 and 2003, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

FALLSBURY TOWNSHIP

LICKING COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 4, 2007**