

SHARON TOWNSHIP

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

Board of Trustees
Sharon Township
P. O. Box 7
Sharon Center, Ohio 44274

We have reviewed the *Independent Auditor's Report* of Sharon Township, Medina County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2005 through December 31, 2005. 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.

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. Sharon Township, Medina County is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

October 9, 2006

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**SHARON TOWNSHIP, OHIO
MEDINA COUNTY
FOR THE YEAR ENDED
DECEMBER 31, 2005**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sharon Township, Medina County
PO Box 7
Sharon Center, OH 44274

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sharon Township, Medina 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 an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sharon Township as of December 31, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General, Road and Bridge Fund and the Fire Special Levy Fund thereof for the year ended in conformity with the accounting basis Note 2 describes.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results

INDEPENDENT AUDITOR'S REPORT (continued)

of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

July 20, 2006

Sharon Township, Medina County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

This discussion and analysis of Sharon Township's 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 Government's financial performance.

Highlights

Key highlights for 2005 are as follows:

The Township's general receipts are primarily property taxes. These receipts represent respectively \$1,086,936, and 66 percent of the 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 been steady but increasingly high.

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 Government'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.

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.

Sharon Township, Medina County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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 Township at year end. The statement of activities compares cash disbursements with program receipts. 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 or business-type activity 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 taxes.

In the statement of net assets and the statement of activities, we divide the Township into governmental activities.

Governmental activities. All of the Township's basic services are reported here, including police, fire, streets and parks. State and federal grants and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

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.

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, Road and Bridge and Fire Special Levy. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Sharon Township, Medina County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

The Township as a Whole

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

	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$2,016,691	\$1,599,264
Total Assets	2,016,691	1,599,264
Net Assets		
Restricted For:		
Special Projects	1,467,498	1,146,246
Capital Outlay	56,011	56,011
Unrestricted	493,182	397,007
Total Net Assets	\$2,016,691	\$1,599,264

Net assets of governmental activities increased \$417,427 or 26 percent during 2005. The primary reason contributing to the increase in cash balance is due to a growth in tax dollars through development.

Sharon Township, Medina County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Table 2 reflects the changes in net assets in 2005.

(Table 2)
Changes in Net Assets

	Governmental Activities 2005	Government Activities 2004
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$61,623	\$56,015
Operating Grants and Contributions	178,619	128,546
Capital Grants and Contributions	41,023	
Total Program Receipts	<u>281,265</u>	<u>184,561</u>
General Receipts:		
Property and Other Local Taxes	1,086,936	1,012,178
Grants and Entitlements Not Restricted to Specific Programs	235,424	225,465
Interest	47,331	14,269
Miscellaneous	1,263	2,306
Total General Receipts	<u>1,370,954</u>	<u>1,254,218</u>
Total Receipts	<u>1,652,219</u>	<u>1,438,779</u>
Disbursements:		
General Government	257,299	332,134
Public Safety	421,292	384,286
Public Works	398,845	390,547
Health	1,324	2,096
Conservation-Recreation	13,071	7,211
Capital Outlay	142,961	78,889
Total Disbursements	<u>1,234,792</u>	<u>1,195,163</u>
Change in Net Assets	417,427	243,616
Net Assets, January 1, 2005	<u>1,599,264</u>	<u>1,355,648</u>
Net Assets, December 31, 2005	<u><u>\$2,016,691</u></u>	<u><u>\$1,599,264</u></u>

Program receipts represent only 17 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees.

General receipts represent 83 percent of the Government's total receipts, and of this amount, over 79 percent are property and other local taxes. State and federal grants and entitlements make up the balance of the Township's general receipts (17 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 Government activities. These include the costs of council, 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.

Sharon Township, Medina County
Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Public Safety is the cost of fire protection; Public Works is the maintenance and repair of the Township's roads; Health is the cemetery maintenance; Conservation-Recreation is the cost of maintaining the parks and playing fields.

Governmental Activities

If you look at the Statement of Activities, 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 disbursements for governmental activities are for Public Safety and Public Works, which account for \$820,137 and 66 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 20 percent.

The Government's Funds

Total governmental funds had receipts of \$1,652,219 and disbursements of \$1,234,792. The greatest change within governmental funds occurred within the General Fund.

General Fund receipts were greater than disbursements by \$137,056 indicating that the General Fund is in a positive spending situation.

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.

During 2005, the Township amended its General Fund budget. Final disbursements were budgeted at \$767,229 while actual disbursements were \$359,151. The Township kept spending very close to budgeted amounts. The result is the increase in fund balance of \$129,242 for 2005.

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. We are actively monitoring our spending within the funds to keep up with the current needs of the residents as well as the future plans for those residents as well.

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 Government'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 Kimberly Bolas Miller, Fiscal Officer, Sharon Township, PO Box 7 Sharon Center, Ohio 44274.

Sharon Township, Medina County
Statement of Net Assets - Cash Basis
December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$2,016,691</u>
<i>Total Assets</i>	<u><u>\$2,016,691</u></u>
Net Assets	
Restricted for:	
Special Projects	\$1,467,498
Capital Projects	56,011
Unrestricted	<u>493,182</u>
<i>Total Net Assets</i>	<u><u>\$2,016,691</u></u>

See accompanying notes to the basic financial statements

Sharon Township, Medina County

Statement of Activities - Cash Basis

For the Year Ended December 31, 2005

	Program Cash Receipts				Net (Disbursements)
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Receipts and Changes in Net Assets
Governmental Activities					
General Government	\$257,299	\$21,343	\$0	\$0	(\$235,956)
Public Safety	421,292	625	64,868	41,023	(314,776)
Public Works	398,845	0	113,201	0	(285,644)
Health	1,324	2,380	0	0	1,056
Conservation-Recreation	13,071	0	0	0	(13,071)
Other	0	37,275	550	0	37,825
Capital Outlay	142,961	0	0	0	(142,961)
<i>Total Governmental Activities</i>	<u>1,234,792</u>	<u>61,623</u>	<u>178,619</u>	<u>41,023</u>	<u>(953,527)</u>
		General Receipts			
		Property Taxes Levied for:			
		General Purposes			1,086,936
		Grants and Entitlements not Restricted to Specific Programs			235,424
		Interest			47,331
		Other			1,263
		<i>Total General Receipts</i>			<u>1,370,954</u>
		Change in Net Assets			417,427
		<i>Net Assets Beginning of Year</i>			<u>1,599,264</u>
		<i>Net Assets End of Year</i>			<u><u>\$2,016,691</u></u>

See accompanying notes to the basic financial statements

Sharon Township, Medina County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General	Road and Bridge Fund	Fire Special Levy Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$489,929	\$364,814	\$936,254	\$225,694	\$2,016,691
<i>Total Assets</i>	<u>\$489,929</u>	<u>\$364,814</u>	<u>\$936,254</u>	<u>\$225,694</u>	<u>\$2,016,691</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$7,814	\$78,680	\$5,052	\$158,680	\$250,226
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	482,115	0	0	0	482,115
Special Revenue Funds	0	286,134	931,202	10,003	1,227,339
Capital Projects Funds	0	0	0	56,011	56,011
Permanent Fund	0	0	0	1,000	1,000
<i>Total Fund Balances</i>	<u>\$489,929</u>	<u>\$364,814</u>	<u>\$936,254</u>	<u>\$225,694</u>	<u>\$2,016,691</u>

See accompanying notes to the basic financial statements

Sharon Township, Medina County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005

	General	Road and Bridge Fund	Fire Special Levy Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Property and Other Local Taxes	\$230,543	\$465,081	\$369,742	\$0	\$1,065,366
Licenses, Permits and Fees	19,070	0	0	1,780	20,850
Fines and Forfeitures	13	0	0	0	13
Intergovernmental	156,584	60,724	89,710	171,328	478,346
Special Assessments	0	0	0	625	625
Interest	44,078	0	0	3,253	47,331
Other	38,105	0	983	600	39,688
<i>Total Receipts</i>	<u>488,393</u>	<u>525,805</u>	<u>460,435</u>	<u>177,586</u>	<u>1,652,219</u>
Disbursements					
Current:					
General Government	257,299	0	0	0	257,299
Public Safety	75,668	0	345,624	0	421,292
Public Works	2,591	359,521	0	36,733	398,845
Health	0	0	0	1,324	1,324
Conservation-Recreation	13,071	0	0	0	13,071
Capital Outlay	2,708	53,139	46,092	41,022	142,961
<i>Total Disbursements</i>	<u>351,337</u>	<u>412,660</u>	<u>391,716</u>	<u>79,079</u>	<u>1,234,792</u>
<i>Net Change in Fund Balances</i>	137,056	113,145	68,719	98,507	417,427
<i>Fund Balances Beginning of Year</i>	<u>352,873</u>	<u>251,669</u>	<u>867,535</u>	<u>127,187</u>	<u>1,599,264</u>
<i>Fund Balances End of Year</i>	<u>\$489,929</u>	<u>\$364,814</u>	<u>\$936,254</u>	<u>\$225,694</u>	<u>\$2,016,691</u>

See accompanying notes to the basic financial statements

Sharon Township, Medina County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$221,400	\$221,400	\$230,543	\$9,143
Licenses, Permits and Fees	7,500	7,500	19,070	11,570
Fines and Forfeitures	20	20	13	(7)
Intergovernmental	108,672	108,672	156,584	47,912
Interest	20,000	20,000	44,078	24,078
Other	0	0	38,105	38,105
<i>Total receipts</i>	<i>357,592</i>	<i>357,592</i>	<i>488,393</i>	<i>130,801</i>
Disbursements				
Current:				
General Government	322,237	320,637	262,699	57,938
Public Safety	85,000	85,000	78,037	6,963
Public Works	32,591	286,592	2,591	284,001
Conservation-Recreation	23,000	23,000	13,116	9,884
Other	15,000	15,000	0	15,000
Capital Outlay	291,000	37,000	2,708	34,292
<i>Total Disbursements</i>	<i>768,828</i>	<i>767,229</i>	<i>359,151</i>	<i>408,078</i>
<i>Net Change in Fund Balance</i>	<i>(411,236)</i>	<i>(409,637)</i>	<i>129,242</i>	<i>538,879</i>
<i>Fund Balance Beginning of Year</i>	<i>346,702</i>	<i>346,702</i>	<i>346,702</i>	<i>0</i>
Prior Year Encumbrances Appropriated	6,171	6,171	6,171	0
<i>Fund Balance End of Year</i>	<i>(\$58,363)</i>	<i>(\$56,764)</i>	<i>\$482,115</i>	<i>\$538,879</i>

See accompanying notes to the basic financial statements

Sharon Township, Medina County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Road and Bridge
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$428,000	\$428,000	\$465,081	\$37,081
Intergovernmental	42,000	42,000	60,724	18,724
<i>Total receipts</i>	470,000	470,000	525,805	55,805
Disbursements				
Current:				
Public Works	587,952	596,552	438,202	158,350
Capital Outlay	100,482	91,000	53,139	37,861
<i>Total Disbursements</i>	688,434	687,552	491,341	196,211
<i>Net Change in Fund Balance</i>	(218,434)	(217,552)	34,464	252,016
<i>Fund Balance Beginning of Year</i>	245,482	245,482	245,482	0
Prior Year Encumbrances Appropriated	6,187	6,187	6,187	0
<i>Fund Balance End of Year</i>	\$33,235	\$34,117	\$286,133	\$252,016

See accompanying notes to the basic financial statements

Sharon Township, Medina County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Fire Special Levy
For the Year Ended December 31, 2005

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property and Other Local Taxes	\$373,200	\$373,200	\$369,742	(\$3,458)
Intergovernmental	44,000	44,000	89,710	45,710
Other	0	0	983	983
<i>Total receipts</i>	<u>417,200</u>	<u>417,200</u>	<u>460,435</u>	<u>43,235</u>
Disbursements				
Current:				
Public Safety	666,797	666,797	350,676	316,121
Capital Outlay	581,319	581,319	46,092	535,227
<i>Total Disbursements</i>	<u>1,248,116</u>	<u>1,248,116</u>	<u>396,768</u>	<u>851,348</u>
<i>Net Change in Fund Balance</i>	(830,916)	(830,916)	63,667	894,583
<i>Fund Balance Beginning of Year</i>	857,238	857,238	857,238	0
Prior Year Encumbrances Appropriated	<u>10,297</u>	<u>10,297</u>	<u>10,297</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u><u>\$36,619</u></u>	<u><u>\$36,619</u></u>	<u><u>\$931,202</u></u>	<u><u>\$894,583</u></u>

See accompanying notes to the basic financial statements

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 1 – Reporting Entity

Sharon Township, Medina County, Ohio (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 Clerk.

The reporting entity is comprised of all funds of the primary government. There are no component units or other organizations to include in the financial statements.

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 the Medina County Sheriff's Department for police protection.

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. Based on these criteria, management has determined the Township has no component units.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a modified cash basis of accounting. This modified 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 modified cash basis of accounting. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Following are the more significant of the Township's accounting policies.

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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, except for fiduciary funds. 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 nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Township does not have any 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 or business-type activity is self-financing on a modified cash basis or draws from the Township's general receipts.

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 and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor 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.

Governmental Funds

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Township's major governmental funds are the General Fund, Road and Bridge Fund and the Fire Special Levy Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

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 accounts for property tax money to construct maintain and repair Township roads and bridges. The Fire Levy Fund is used to account for property tax revenue received and used to provide fire protection services for the Township.

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

C. Basis of Accounting

The Township's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, 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. Any such modifications made by the Township are described in the appropriate section in this note.

As a result of the use of this modified 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 Clerk. 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.

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

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.

During 2005, the Township invested in nonnegotiable certificates of deposit, and STAR Ohio. The nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2005.

Interest earnings are allocated to Township funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$47,078 which includes \$31,846 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. Interfund Receivables/Payables

The Township reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

I. Accumulated Leave

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

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 2 – Summary of Significant Accounting Policies (continued)

J. 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 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. 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. Net assets restricted for other purposes include resources restricted for specific uses and capital projects.

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.

L. 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 been established for encumbrances.

Note 3 – 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 – Budgetary Basis presented for the General Fund, the Road and Bridge Fund and the Fire Special Levy Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference(s) between the budgetary basis and the modified cash basis is (are) outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$7,814 for the General Fund \$78,680 for the Road and Bridge fund and \$5,052 for the Fire Special Levy Fund.

Note 4 – 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.

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 4 - Deposits and Investments (continued)

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;
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).

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.

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, \$458,549 of the Township's bank balance of \$559,549 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

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 4 - Deposits and Investments (continued)

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.

Investments

As of December 31, 2005, the Township had the following investment:

	<u>Carrying Value</u>	<u>Maturity</u>
STAR Ohio	\$1,475,297	Average

STAR Ohio carries a rating of AAAM by Standard and Poor's. The Township has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service and that the money market fund be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

Note 5 – 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 in 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 in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2004, 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.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 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.

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 5 – Property Taxes (continued)

The full tax rate for all Township operations for the year ended December 31, 2005, was \$7.40 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential/Agriculture	\$144,199,680
Commercial/Industrial/Mineral	22,205,840
Public Utility Property	
Personal	3,516,920
Tangible Personal Property	13,879,861
Total Assessed Value	\$183,802,301

Note 6 – Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During 2005 the Township contracted with Ohio Township Association Risk Management Authority (OTARMA), a risk sharing pool available to Ohio Townships. OTAMRA provides property and casualty coverage for its members. OTAMRA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTAMRA. OTAMRA pays judgments, settlements, and other expenses resulting from covered claims that exceed the members' deductibles. Coverage provided by OTAMRA is as follows:

Legal Liability	\$2,000,000	Per Occurrence
Automobile Liability	2,000,000	Per Occurrence
Law Enforcement Operations	2,000,000	Per Occurrence
Wrongful Acts	2,000,000	Per Occurrence
Property	3,401,232	Total Coverage
Boiler and Machinery		Limit

There were no significant reductions in coverage from prior years and claims have not exceeded insurance coverage in any of the past three years. The Township pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is based on accident history and administrative costs.

Note 7 – Defined Benefit Pension Plan

The Township participates in 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.

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 7 – Defined Benefit Pension Plan (continued)

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 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 of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The Township's contribution rate for pension benefits for 2005 was 13.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the Township's pension contributions were 16.7 percent of covered payroll. Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$29,598, \$27,994, and \$27,781 respectively. The full amount has been contributed for 2005, 2004 and 2003.

Note 8 - Postemployment Benefits

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 primary survivor 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 Postemployment 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 (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

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 8.00 percent, an annual increase in active employee total payroll of 4.00 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 between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

Sharon Township
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 8 - Postemployment Benefits (continued)

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 postemployment benefits were \$8,737. 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. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**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**

Board of Trustees
Sharon Township, Medina County
PO Box 7
Sharon Center, OH 44274

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sharon Township, Medina County (the Township), as of and for the year ended December 31, 2005, and have issued our report thereon dated July 20, 2006, wherein we noted the Township followed the cash basis of accounting, a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. 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 Control Over Financial Reporting

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

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 and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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* (continued)

We noted certain matters that we reported to management of the Township in a separate letter dated July 20, 2006.

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

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

July 20, 2006



**Auditor of State
Betty Montgomery**

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800-282-0370

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SHARON TOWNSHIP

MEDINA 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 19, 2006**