



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

February 9, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**MUNSON TOWNSHIP
GEAUGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Munson Township
Geauga County
12210 Auburn Road
Chardon, Ohio 44024

To the Board of Trustees

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis 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 modified cash basis financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Munson Township, Geauga County, Ohio, as of December 31, 2005, and the respective changes in modified cash basis financial position and the respective budgetary comparisons for the General, Road & Bridge, Fire Operating Apparatus, and Fire and Rescue Ambulance EMS Services funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2006, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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



Betty Montgomery
Auditor of State

December 7, 2006

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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

Highlights

Key highlights for 2005 are as follows:

Net assets increased \$165,217.

Munson Township's spending was conservative in 2005 due to the failure of a 1 mill road levy. The levy, first enacted in 1989, which brought in approximately \$110,000 was rejected as a replacement by the voters in 2004 and again, as a new levy, in 2005.

Public Safety: Munson contracted with the Geauga County Sheriff's Department for additional patrol [\$9,256] and with Munson Fire Department, Inc. for Fire and EMS Services [\$918,823].

Building Repairs: Roof repairs were done on the Fire Station North Roof \$12,875 and the Road Department Salt Building, \$1,240.

Road Projects: No micro-surfacing was done in 2005. A culvert was replaced on Fowlers Mill Road for \$2,926 and Wellesley Lane was resurfaced for \$50,592.

Park Improvements and Land Purchase: The following improvements were made to the Munson Township Park, 12641 Bass Lake Road: a second sand volleyball court was installed, 25 ornamental trees were planted, and new dugouts were painted [\$6,697]. The trustees purchased 91 acres of park land [Scenic River Retreat] located between Auburn Road and the Fowlers Mill Historic District at a total cost of \$552,191. The land is protected by a conservation easement held by the Western Reserve Land Conservancy. The cost [paid in 2004 and 2005] was offset by two grants, an OPWC Clean Ohio Grant \$399,999 and an ODNR Great Lakes Coastal Restoration Grant \$120,000. The \$120,000 grant was anticipated to be received in 2005, but was not disbursed to the township until January 2006.

Using the Basic Financial Statements

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

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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 modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Township's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified 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 modified cash basis of accounting.

Reporting the Township as a Whole

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

These statements report the Township's cash position and the changes in cash position. Keeping in mind the limitations of the modified 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 nonfinancial factors as well such as the Township's property tax base, the condition of the Township's capital assets and infrastructure, 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 only present the Township with one type of activity:

Governmental activities. Most of the Township's basic services are reported here, including fire, roads and parks. Munson also contracts for additional patrol with the Geauga County Sheriff's Department. 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.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Reporting the Township's Most Significant Funds

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

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 Government's programs. The Township's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor 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 presents the following five major funds: General, Road and Bridge, Fire Operating and Apparatus, Fire & Rescue Ambulance EMS Services, and Capital Projects. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. We describe this relationship in reconciliations presented with the governmental fund financial statements.

The Township as a Whole

Table 1 provides a summary of the Township's net assets for 2005. Since the Township did not prepare financial statements in this format for 2004, a comparative analysis has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

	<u>Governmental Activity 2005</u>
Assets	
Cash and Cash Equivalents	\$936,697
Investments	<u>0</u>
Total Assets	<u>936,697</u>
Net Assets	
Restricted for:	
Other Purposes	350,976
Unrestricted	<u>585,721</u>
Total Net Assets	<u>\$936,697</u>

As mentioned previously, net assets of governmental activities increased \$165,217 during 2005. The primary reasons contributing to the increases in cash balances are as follows:

- The increase of \$165,217 was driven by the fact that the Road and Bridge receipts exceeded our expenditures by \$118,241 – road projects were curtailed due to the failure of a tax levy.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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

(Table 2)
Changes in Net Assets

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$318,671
Operating Grants and Contributions	94,663
Capital Grants and Contributions	399,999
Total Program Receipts	813,333
General Receipts:	
Property and Other Local Taxes	1,572,651
Income Taxes	
Grants and Entitlements Not Restricted to Specific Programs	476,122
Interest	20,417
Miscellaneous	61,754
Total General Receipts	2,130,944
Total Receipts	2,944,277
Disbursements:	
General Government	394,715
Public Safety	1,014,006
Public Works	602,728
Health	8,855
Conservation-Recreation	29,266
Capital Outlay	729,490
Total Disbursements	2,779,060
Increase (Decrease) in Net Assets	165,217
Net Assets, January 1, 2005	771,480
Net Assets, December 31, 2005	\$936,697

Program receipts represent only 28 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, zoning permits, cemetery and EMS fees.

General receipts represent 72 percent of the Township's total receipts, and of this amount, over 53 percent are local taxes. State and federal grants and entitlements make up the balance of the Township's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

Disbursements for General Government represent the overhead costs of running the Township and the support services provided for the other Township activities. These include the costs of the elected officials and office staff, and the services provided by the county auditor, treasurer, legal and engineering departments, as well as internal services such as payroll and purchasing. Since these costs do not represent direct services to residents, we try to limit these costs.

Public Safety is the cost of police and fire protection; Conservation-Recreation is the cost of maintaining the parks and playing fields; Public Works is the cost of maintaining the roads; Health is the cost of maintaining the cemeteries; and Capital Outlay is land purchase.

Governmental Activities

If you look at the Statement of Activities – Modified Cash Basis report for year ended December 31, 2005, 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 (security of persons and property) and Public Works (transportation), which account for 36 and 22 percent of all governmental disbursements, respectively. General government also represents a significant cost, about 14 percent. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Township that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This “net cost” amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost (amount paid directly by taxpayers) is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost of Services 2005	Net Cost of Services 2005
General Government	\$394,715	(\$394,715)
Public Safety (Fire/EMS)	1,014,006	(720,898)
Public Works	602,728	(108,066)
Health	8,855	(2,539)
Conservation-Recreation	29,266	(29,266)
Capital Outlay	729,490	(729,490)
Other	0	19,247
Total Expenses	<u>\$2,779,060</u>	<u>(\$1,965,727)</u>

The dependence upon property and income tax receipts is apparent as over 70% percent of governmental activities are supported through these general receipts.

The Township's Funds

Total governmental funds had receipts and other financing sources of \$2,945,977, and disbursements and other financing uses of \$2,780,760. The greatest change within governmental funds occurred within the Road and Bridge Fund. The fund balance of the Road and Bridge Fund increased \$118,241. Road projects were curtailed due to the failure of a tax levy.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Management's Discussion and Analysis
For the Year Ended December 31, 2005
Unaudited

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 several times to reflect changing circumstances. Final budgeted receipts were higher than original budgeted receipts due to a slight increase in tax receipts and a greater increase in intergovernmental receipts. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements were budgeted at \$1,331,505, while actual disbursements were \$752,356. The final appropriation was 3,012,017. The Township amended the appropriations throughout the year as additional funds became available. The Township kept spending very close to budgeted amounts as demonstrated by the minor reported variances. The result is the increase in fund balance of \$165,217 for 2005.

Capital Assets

The Township does not currently keep track of its capital assets and infrastructure.

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.

Contacting the Township's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Township's finances and to reflect the Township's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Patricia A. Bayer, Fiscal Officer, Munson Township, 12210 Auburn Road, Chardon OH 44024-9454.

MUNSON TOWNSHIP
GEAUGA COUNTY
Statement of Net Assets - Modified Cash Basis
December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$936,697
<i>Total Assets</i>	<u><u>\$936,697</u></u>
Net Assets	
Restricted for:	
Other Purposes	350,976
Unrestricted	585,721
<i>Total Net Assets</i>	<u><u>\$936,697</u></u>

See accompanying notes to the basic financial statements.

MUNSON TOWNSHIP
GEAUGA COUNTY
Statement of Activities - Modified 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	\$394,715	\$0	\$0	\$0	(\$394,715)
Public Safety	1,014,006	293,108	0	0	(720,898)
Public Works	602,728	0	94,663	399,999	(108,066)
Health	8,855	6,316	0	0	(2,539)
Conservation-Recreation	29,266	0	0	0	(29,266)
Other	0	19,247	0	0	19,247
Capital Outlay	729,490	0	0	0	(729,490)
<i>Total Governmental Activities</i>	<u>\$2,779,060</u>	<u>\$318,671</u>	<u>\$94,663</u>	<u>\$399,999</u>	<u>(\$1,965,727)</u>
General Receipts					
Property Taxes					\$1,572,651
Grants and Entitlements not Restricted to Specific Programs					476,122
Earnings on Investments					20,417
Miscellaneous					61,754
<i>Total General Receipts</i>					<u>2,130,944</u>
Change in Net Assets					165,217
<i>Net Assets Beginning of Year</i>					<u>771,480</u>
<i>Net Assets End of Year</i>					<u>\$936,697</u>

See accompanying notes to the basic financial statements.

MUNSON TOWNSHIP
GEOUGA COUNTY
Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General	Road and Bridge	Fire Operating Apparatus	Fire & RSC Ambulance EMS Serv.	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$585,721	\$189,216	\$45,223	\$17,192	\$99,345	\$936,697
<i>Total Assets</i>	<u>\$585,721</u>	<u>\$189,216</u>	<u>\$45,223</u>	<u>\$17,192</u>	<u>\$99,345</u>	<u>\$936,697</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances	6,237	0	0	200	75	6,512
Unreserved:						
Undesignated (Deficit), Reported in:						
General Fund	579,484	0	0	0	0	579,484
Special Revenue Funds	0	189,216	45,223	16,992	99,270	350,701
Debt Service Fund	0	0	0	0	0	0
Capital Projects Funds	0	0	0	0	0	0
Permanent Fund	0	0	0	0	0	0
<i>Total Fund Balances</i>	<u>\$585,721</u>	<u>\$189,216</u>	<u>\$45,223</u>	<u>\$17,192</u>	<u>\$99,345</u>	<u>\$936,697</u>

See accompanying notes to the basic financial statements.

MUNSON TOWNSHIP
GEAUGA COUNTY
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
December 31, 2005

Total Governmental Fund Balances	<u>\$936,697</u>
<i>Net Assets of Governmental Activities</i>	<u>\$936,697</u>

See accompanying notes to the basic financial statements.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

*Statement of Cash Receipts, Disbursements, and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005*

	General	Road and Bridge	Fire Operating Apparatus	Fire & RSC Ambulance EMS Serv.	Capital Project	Other Governmental Funds	Total
Receipts							
Property and Other Local Taxes	\$371,351	\$556,929	\$644,371	\$0	\$0	\$0	\$1,572,651
Charges for Services	0	0	0	293,108	0	0	293,108
Licenses, Permits and Fees	0	0	0	0	0	17,914	17,914
Intergovernmental	304,539	81,864	89,719	0	399,999	94,663	970,784
Earnings on Investments	19,213	0	0	0	0	1,204	20,417
Miscellaneous	4,252	18,329	0	0	0	14,535	37,116
Total Receipts	699,355	657,122	734,090	293,108	399,999	128,316	2,911,990
Disbursements							
Current:							
General Government	367,617	0	0	0	0	27,098	394,715
Public Safety	9,257	0	727,309	277,440	0	0	1,014,006
Public Works	7,137	538,881	0	0	0	56,710	602,728
Health	1,651	0	0	0	0	7,204	8,855
Conservation-Recreation	29,266	0	0	0	0	0	29,266
Capital Outlay	329,491	0	0	0	399,999	0	729,490
Total Disbursements	744,419	538,881	727,309	277,440	399,999	91,012	2,779,060
Excess of Receipts Over (Under) Disbu	(45,064)	118,241	6,781	15,668	0	37,304	132,930
Other Financing Sources (Uses)							
Advances In	1,700	0	0	0	0	0	1,700
Advances Out	(1,700)	0	0	0	0	0	(1,700)
Other Financing Sources	32,287	0	0	0	0	0	32,287
Total Other Financing Sources (Uses)	32,287	0	0	0	0	0	32,287
Net Change in Fund Balances	(12,777)	118,241	6,781	15,668	0	37,304	165,217
Fund Balances Beginning of Year	598,498	70,975	38,442	1,524	0	62,041	771,480
Fund Balances End of Year	<u>\$585,721</u>	<u>\$189,216</u>	<u>\$45,223</u>	<u>\$17,192</u>	<u>\$0</u>	<u>\$99,345</u>	<u>\$936,697</u>

See accompanying notes to the basic financial statements.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended December 31, 2005*

Net Change in Fund Balances - Total Governmental Funds	<u>\$165,217</u>
<i>Change in Net Assets of Governmental Activities</i>	<u><u>\$165,217</u></u>

See accompanying notes to the basic financial statements.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

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

	<u>Budgeted Amounts</u>			(Optional) Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property and Other Local Taxes	\$365,600	\$371,351	\$371,351	\$0
Intergovernmental	258,474	304,024	304,539	515
Earnings on Investments	20,650	18,759	19,213	454
Miscellaneous	5,000	4,886	4,252	(634)
<i>Total receipts</i>	<u>649,724</u>	<u>699,020</u>	<u>699,355</u>	<u>335</u>
Disbursements				
Current:				
General Government	424,941	513,460	373,854	139,606
Public Safety	92,260	92,260	9,257	83,003
Public Works	158,150	155,235	7,137	148,098
Health	6,500	6,500	1,651	4,849
Conservation-Recreation	46,750	47,750	29,266	18,484
Capital Outlay	460,800	514,600	329,491	185,109
<i>Total Disbursements</i>	<u>1,189,401</u>	<u>1,329,805</u>	<u>750,656</u>	<u>579,149</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(539,677)</u>	<u>(630,785)</u>	<u>(51,301)</u>	<u>579,484</u>
Other Financing Sources (Uses)				
Advances In	0	0	1,700	1,700
Advances Out	0	(1,700)	(1,700)	0
Other Financing Sources	10,200	32,287	32,287	0
<i>Total Other Financing Sources (Uses)</i>	<u>10,200</u>	<u>30,587</u>	<u>32,287</u>	<u>1,700</u>
<i>Net Change in Fund Balance</i>	(529,477)	(600,198)	(19,014)	581,184
<i>Fund Balance Beginning of Year</i>	597,798	597,798	597,798	0
Prior Year Encumbrances Appropriated	<u>700</u>	<u>700</u>	<u>700</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$69,021</u>	<u>(\$1,700)</u>	<u>\$579,484</u>	<u>\$581,184</u>

See accompanying notes to the basic financial statements.

**MUNSON TOWNSHIP
GEOUGA COUNTY**

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

	Budgeted Amounts		Actual	(Optional) Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property Taxes	\$545,500	\$556,929	\$556,929	\$0
Intergovernmental	82,933	78,938	81,864	2,926
Miscellaneous	4,000	18,273	18,329	56
<i>Total receipts</i>	632,433	654,140	657,122	2,982
Disbursements				
Current:				
Public Works	703,408	725,115	538,881	186,234
<i>Total Disbursements</i>	703,408	725,115	538,881	186,234
<i>Excess of Receipts Over (Under) Disbursements</i>	(70,975)	(70,975)	118,241	189,216
<i>Fund Balance Beginning of Year</i>	70,975	70,975	70,975	0
<i>Fund Balance End of Year</i>	\$0	\$0	\$189,216	\$189,216

See accompanying notes to the basic financial statements.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Fire Operating Apparatus
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>			(Optional)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Receipts				
Property Taxes	\$633,300	\$644,371	\$644,371	\$0
Intergovernmental	86,111	89,719	89,719	0
<i>Total receipts</i>	<u>719,411</u>	<u>734,090</u>	<u>734,090</u>	<u>0</u>
Disbursements				
Current:				
Public Safety	735,843	757,477	727,309	30,168
Capital Outlay	20,000	15,000	0	15,000
<i>Total Disbursements</i>	<u>755,843</u>	<u>772,477</u>	<u>727,309</u>	<u>45,168</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(36,432)</u>	<u>(38,387)</u>	<u>6,781</u>	<u>45,168</u>
<i>Net Change in Fund Balance</i>	(36,432)	(38,387)	6,781	45,168
<i>Fund Balance Beginning of Year</i>	36,487	36,487	36,487	0
Prior Year Encumbrances Appropriated	<u>1,955</u>	<u>1,955</u>	<u>1,955</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$2,010</u>	<u>\$55</u>	<u>\$45,223</u>	<u>\$45,168</u>

See accompanying notes to the basic financial statements.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Fire & Rescue Ambulance EMS Services
For the Year Ended December 31, 2005*

	Budgeted Amounts		Actual	(Optional)
	Original	Final		Variance with Final Budget Positive (Negative)
Receipts				
Charges for Services	\$200,000	\$286,146	\$293,108	\$6,962
<i>Total receipts</i>	200,000	286,146	293,108	6,962
Disbursements				
Current:				
Public Safety	176,924	287,670	277,640	10,030
Capital Outlay	24,500	0	0	0
<i>Total Disbursements</i>	201,424	287,670	277,640	10,030
<i>Excess of Receipts Over (Under) Disbursements</i>	(1,424)	(1,524)	15,468	16,992
<i>Net Change in Fund Balance</i>	(1,424)	(1,524)	15,468	16,992
<i>Fund Balance Beginning of Year</i>	1,424	1,424	1,424	0
Prior Year Encumbrances Appropriated	100	100	100	0
<i>Fund Balance End of Year</i>	\$100	\$0	\$16,992	\$16,992

See accompanying notes to the basic financial statements.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

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

NOTE 1 – REPORTING ENTITY

Munson Township, Geauga County, Ohio, (the Township) is a body politic and corporate established in 1816 to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township also has an elected Township Fiscal Officer.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, maintenance of Township roads and bridges, and park maintenance. The Township contracts with the Munson Fire Department for fire protection. Police protection is provided by Geauga County Sheriff's Department.

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

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. Munson Township has no component units.

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. Following are the more significant of the Township's accounting policies.

A. Basis of Presentation

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

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation (Continued)

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. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions.

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

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: General Fund, Road and Bridge Fund, Fire Operating Apparatus Fund, Fire and Rescue Ambulance and EMS Service Fund, and the Capital Project Fund.

General Fund – This fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

Road and Bridge Fund – This fund receives real estate tax, homestead and rollback, and personal property tax money to maintain and repair township roads and bridges.

Fire Operating Apparatus Fund – This fund receives real estate tax, homestead and rollback, and personal property tax money for costs for operating the fire department.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

Governmental Funds (Continued)

Fire and Rescue Ambulance and EMS Service Fund – This fund receives real estate tax, homestead and rollback, and personal property tax money for fire and emergency medical services for the Township.

Capital Project Fund – This fund receives intergovernmental revenues for various capital projects in 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 resolution, 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. It is approved by the Township Trustees in the Permanent Appropriations.

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

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

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 resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

E. Cash and Investments

Township records identify the purchase of specific investments by specific funds.

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 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, respectively.

During 2005, the Township had invested in US Treasury Bills and a Money Market Account.

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 \$19,213 which includes \$1,204 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 vacation leave. Unpaid leave is not reflected as a liability under the Township's modified cash basis of accounting.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

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 8 and 9, 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 road and bridge, fire operating apparatus, fire and rescue ambulance EMS service, and the Scholarship funds. 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.

M. Interfund Transactions

Transfers between governmental activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

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

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and the Road and Bridge Fund, Fire Operating and Apparatus Fund, and Fire and Rescue Ambulance EMS Services Fund, are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year end encumbrances 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 \$6,237 for the general fund and \$200 for Fire and Rescue Ambulance EMS Services.

NOTE 5 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

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

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

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.

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 \$254,964 of the Township's bank balance of \$354,964 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department's or agent, but not in the Township's name.

Investments

The Township's investment policy is limited to complying with state statute, which investment objectives include safety, liquidity and return on investments; authorized financial institutions and broker/dealers and authorized investments.

Interest rate risk is monitored by Middle Field Bank through weighted average maturity, duration, and keeping maturities within a three-year horizon; most mature within one year.

Investments are obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government and are not considered to have credit risk. Money Market funds are invested in U.S. Treasury bonds and notes.

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

	<u>Carrying Value</u>	<u>Maturity</u>
U.S. Treasury Bill	\$98,055	10/25/2006
Money Market	653,502	1 day
Total Portfolio	<u><u>\$751,557</u></u>	

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Township's investment policy addresses interest rate risk by requiring that the Township's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

NOTE 6 – PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received 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.

The full tax rate for all Township operations for the year ended December 31, 2005, was \$11.171 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 as noted on the next page.

Real Property	
Residential	\$191,597,870
Public Utility Property	
Real	5,661,790
Personal	7,266,010
Tangible Personal Property	12,927,800
Total Assessed Value	<u><u>\$217,453,470</u></u>

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 7 – 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.

The Township pays the Ohio Bureau of Worker's Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

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

Casualty Coverage

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

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

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

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

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

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 7 – RISK MANAGEMENT (Continued)

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004:

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

At December 31, 2005 and 2004, respectively, casualty coverage liabilities noted above include approximately \$11.6 million and \$10.3 million of estimated incurred claims payable.

The Casualty Coverage assets and retained earnings above also include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. 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 \$37,000. 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 charged by OTARMA 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 liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership. The Townships contributions to OTARMA for the past three years are as follows:

<u>Year</u>	<u>Contribution</u>
2005	\$21,094
2004	\$17,567
2003	\$16,864

After completing one year of membership, 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 contribution. Also upon withdrawal, payments for all 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. Withdrawing members have no other future obligation to the pool.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 8 – DEFINED BENEFIT PENSION PLAN

Ohio Public Employees Retirement System

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

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

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

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2005 was 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 were \$59,392, \$57,439, and \$67,411 respectively. The full amount has been contributed for 2005, 2004 and 2003.

NOTE 9 – POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and 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 Post-employment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

**MUNSON TOWNSHIP
GEAUGA COUNTY**

Notes to the Financial Statements
For the Year Ended December 31, 2005
(Continued)

NOTE 9 – POST-EMPLOYMENT BENEFITS (Continued)

Ohio Public Employees Retirement System (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 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.

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 pension and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund post-employment benefits were \$24,876. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2004, were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the solvency of the fund in response to increasing health care costs. As an additional component of the HCPP, member and employer contribution rates will increase as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.



Auditor of State Betty Montgomery

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

Munson Township
Geauga County
12210 Auburn Road
Chardon, Ohio 44024

To the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Munson Township, Geauga County, Ohio, (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated December 7, 2006, wherein we noted the Township adopted a reporting method comparable to the requirements of Government Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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 no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

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www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

December 7, 2006



Mary Taylor, CPA
Auditor of State

MUNSON TOWNSHIP

GEAUGA 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
FEBRUARY 22, 2007**