

FALLS TOWNSHIP
HOCKING COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2005 and 2004

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



**Auditor of State
Betty Montgomery**

Board of Trustees
Falls Township
14370 St. Rt. 93 South
Logan, Ohio 43138

We have reviewed the *Report of Independent Accountants* of Falls Township, Hocking County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2004 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. Falls Township 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 2, 2006

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**FALLS TOWNSHIP
HOCKING COUNTY
AUDIT REPORT**

For the years ended December 31, 2005 and 2004

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Trustees
Falls Township, Hocking County
14370 State Route 93 South
Logan, Ohio 43138

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Falls Township, Hocking County, Ohio, (the Township), as of and for the years ended December 31, 2005 and 2004, 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Falls Township, Hocking County, Ohio, as of December 31, 2005 and 2004, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund and the Road and Bridge Fund for the years ended December 31, 2005 and 2004 and the Fire District Fund for the year ended December 31, 2004, in conformity with accounting basis Note 2 describes.

The management's discussion and analysis on pages 3 to 8 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 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, 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 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.

Charles E. Harris & Associates, Inc.

July 21, 2006

FALLS TOWNSHIP, HOCKING COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

This discussion and analysis of the Falls Township's financial performance provides an overall review of the Township's financial activities for the years ended December 31, 2005 and 2004, within the limitations of the Township's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Township's financial performance.

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities decreased \$54,133, or 30 percent in 2005, a significant change from the prior year. The fund most affected by the decrease in cash and cash equivalents was the Road and Bridge Fund. Net assets of governmental activities increased \$42,587 or 31 percent in 2004, a significant change from the prior year. The funds most affected by the increase in cash and cash equivalents were the General Fund, Road and Bridge Fund and the Fire District Fund.

The Township's general receipts are primarily property and occupancy taxes. These receipts represent 60.4 percent for 2005 and 64.9 percent for 2004 of the total cash received for governmental activities. Property and occupancy tax receipts for 2005 changed very little compared to 2004 as development within the Township has slowed.

The Township unexpectedly received FEMA grants of \$18,187 and \$3,113 in 2005 and 2004 for flood disasters. The Township also received \$10,000 from the Hocking County Engineer Department to assist in road maintenance during 2005 and 2004. This is included in the governmental activities as capital outlay.

Using the Basic Financial Statements

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

Report Components

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

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

FALLS TOWNSHIP, HOCKING COUNTY
Management's Discussion and Analysis
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Unaudited

Township's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

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

Reporting the Township as a Whole

The statement of net assets and the statement of activities reflect how the Township did financially during 2005 and 2004, within the limitations of 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 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 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 one type of activity:

Governmental activities. All of the Township's basic services are reported here, including police, fire, streets and parks. State and federal grants and property and occupancy 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. The funds of the Township are as follows:

FALLS TOWNSHIP, HOCKING COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

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 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's major governmental funds are the General Fund, Road and Bridge Fund and Fire District Fund.

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. Since this is the first period the Township has reported on this method, there are no comparisons to 2003.

(Table 1)		
Net Assets		
	Governmental Activities	
	2005	2004
Assets		
Cash and Cash Equivalents	\$ 127,771	\$ 181,904
Total Assets	<u>\$ 127,771</u>	<u>\$ 181,904</u>
Net Assets		
Restricted for:		
Other Purposes	80,152	138,847
Unrestricted	47,619	43,057
Total Net Assets	<u>\$ 127,771</u>	<u>\$ 181,904</u>

As mentioned previously, net assets of governmental activities decreased \$54,133 or 29.8 percent during 2005, and increased \$42,587 or 30.6 percent in 2004. The primary reasons contributing to the decreases in cash balances in 2005 are the unanticipated slow growth in local tax receipts and increases in salaries. The primary reason for the increase in cash balances in 2004 was a decrease in disbursements for public works.

Tables 2 and 3 reflect the changes in net assets in 2005 and 2004. Since the Township did not prepare financial statements in this format for 2003, a comparative analysis of government-wide data for 2003 has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

FALLS TOWNSHIP, HOCKING COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Receipts:		
Program Receipts:		
Charges for Services and Sales	\$ 9,540	\$ 2,325
Operating Grants and Contributions	129,242	106,070
Total Program Receipts	<u>138,782</u>	<u>108,395</u>
General Receipts:		
Property and Other Local Taxes	368,836	367,250
Grants and Entitlements Not Restricted to Specific Programs	95,097	83,479
Interest	2,154	1,115
Miscellaneous	5,440	5,837
Total General Receipts	<u>471,527</u>	<u>457,681</u>
Total Receipts	<u>610,309</u>	<u>566,076</u>
Disbursements:		
General Government	170,957	196,342
Security of Persons and Property:	65,633	51,040
Health	16,650	10,653
Public Works	376,808	228,549
Capital Outlay	15,783	17,848
Debt Service:		
Principal Retirement	16,328	17,337
Interest and Fiscal Charges	2,283	1,719
Total Disbursements	<u>664,442</u>	<u>523,488</u>
Increase (Decrease) in Net Assets	(54,133)	42,588
Net Assets, January 1,	181,904	139,316
Net Assets, December 31,	<u>\$ 127,771</u>	<u>\$ 181,904</u>

Program receipts represent 22.7 percent in 2005 and 19.1 percent in 2004 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, and charges for services.

General receipts represent 77.3 percent in 2005 and 80.9 percent in 2004 of the Township's total receipts, and of this amount, over 78.2 percent in 2005 and 80.2 percent in 2004 are local taxes. State and federal grants and entitlements make up the balance of the Township's general receipts, 20.2 percent in 2005 and 18.2 percent in 2004. Other receipts are insignificant and somewhat unpredictable revenue sources.

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

Security of Persons and Property are the costs of fire protection; Public Health Services is the maintenance of the Township's six cemeteries; and Public Works is the cost of maintaining the roads.

FALLS TOWNSHIP, HOCKING COUNTY
 Management's Discussion and Analysis
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Governmental Activities

If you look at the Statement of Activities on page 10 and 16, 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 works and general government, which account for 57.8 and 25.1 percent of all governmental disbursements in 2005 and 43.7 and 37.5 percent of all governmental disbursements in 2004. Security of persons and property also represents a significant cost, about 9.6 and 9.7 percent in 2005 and 2004, respectively. The next two columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Township that must be used to provide a specific service. The net 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 is presented in Table 3.

(Table 3)

	Governmental Activities		Governmental Activities	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2005	2005	2004	2004
General Government	\$ 170,957	\$ (170,957)	\$ 196,342	\$ (196,342)
Security of Persons and Property	65,633	(65,633)	51,040	(51,040)
Health	16,650	(7,110)	10,653	(8,328)
Public Works	376,808	(247,566)	228,549	(122,479)
Capital Outlay	15,783	(15,783)	17,848	(17,848)
Debt Service:				
Principal Retirement	16,328	(16,328)	17,337	(17,337)
Interest and Fiscal Charges	2,283	(2,283)	1,719	(1,719)
Total Expenses	\$ 664,442	\$ (525,660)	\$ 523,488	\$ (415,093)

The dependence upon property and income tax receipts is apparent as over 81.1 percent in 2005 and over 79.3 percent in 2004 of governmental activities are supported through these general receipts.

The Township's Funds

Total governmental funds had receipts of \$628 thousand and \$566 thousand in 2005 and 2004, and disbursements of \$682 thousand and \$523 thousand in 2005 and 2004. The greatest change within governmental funds occurred within the Road and Bridge for 2005 due to much more street and bridge repairs. The greatest change within the governmental funds occurred within the Fire District Fund and Road and Bridge funds for 2004 due less street and bridge projects and increased property tax receipts.

Governmental receipts were less than disbursements by \$54,133 indicating that the Township has entered into a deficit spending situation during 2005. It was the recommendation of management that a reduction in disbursements was preferable to requesting additional funds from taxpayers. Some cuts in spending have already been implemented for 2006 including cuts in road repairs and maintenance and reductions in personnel. These cuts will not eliminate the need for additional funds (or additional cuts) in the future if the growth in property and income taxes remains stagnant.

FALLS TOWNSHIP, HOCKING COUNTY
Management's Discussion and Analysis
For the Years Ended December 31, 2005 and 2004
Unaudited

Major 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 funds are the General Fund, Road and Bridge Fund and Fire District Fund.

During 2005 and 2004, the Township did not make any material changes to its budgetary information for its General Fund. The Township amended its Road and Bridge Fund budget several times to reflect changing circumstances. The difference between final budgeted receipts and actual receipts was not significant.

Final disbursements for the Road and Bridge Fund were budgeted at \$332,531 and \$315,947 for 2005 and 2004. Actual disbursements were \$280,588 and \$155,344 for 2005 and 2004.

Capital Assets and Debt Administration

Capital Assets

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

Debt

At December 31, 2005, the Township's outstanding debt was \$21,126 in a general obligation note for a truck purchase. For further information regarding the Township's debt, refer to Note 11 to the basic financial statements.

Current Issues

The challenge for all Townships is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. The Township relies heavily on local taxes and have very little industry to support the tax base. Our newly prepared financial forecast predicts a deficit for 2006; therefore, the administration implemented a strategy to delay the deficit. This plan became effective for 2005. We reviewed our sources of revenue and determined that increases were unlikely. We then reviewed the disbursement history of the Township. We have reduced road repairs and maintenance and have also reduced staffing levels in areas where we felt it would have the least impact on services. All departments have been asked to reduced their spending for supplies by 10-20 percent.

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 Rudolph W. Rempel, Fiscal Officer, Falls Township, 14370 State Route 93 South, Logan, Ohio 43138.

FALLS TOWNSHIP, HOCKING COUNTY

Statement of Net Assets - Cash Basis

December 31, 2005

	Governmental Activities
Assets	
Equity in Pooled Cash and Investments	<u>\$ 127,771</u>
<i>Total Assets</i>	<u><u>\$ 127,771</u></u>
Net Assets	
Restricted for:	
Other Purposes	\$ 80,152
Unrestricted	<u>47,619</u>
<i>Total Net Assets</i>	<u><u>\$ 127,771</u></u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING COUNTY

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2005*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Total
Governmental Activities					
General Government	\$ 170,957	-	-	\$ (170,957)	\$ (170,957)
Security of Persons and Property	65,633	-	-	(65,633)	(65,633)
Health	16,650	\$ 9,540	-	(7,110)	(7,110)
Public Works	376,808	-	\$ 129,242	(247,566)	(247,566)
Capital Outlay	15,783	-	-	(15,783)	(15,783)
Debt Service:					
Principal Retirement	16,328	-	-	(16,328)	(16,328)
Interest and Fiscal Charges	2,283	-	-	(2,283)	(2,283)
<i>Total Governmental Activities</i>	<u>664,442</u>	<u>9,540</u>	<u>129,242</u>	<u>(525,660)</u>	<u>(525,660)</u>
Total	<u>\$ 664,442</u>	<u>\$ 9,540</u>	<u>\$ 129,242</u>	<u>(525,660)</u>	<u>(525,660)</u>
General Receipts					
Property Taxes Levied for:					
General Purposes				\$ 281,985	\$ 281,985
Other Taxes				86,851	86,851
Grants and Entitlements not Restricted to					
Specific Programs				95,097	95,097
Interest				2,154	2,154
Miscellaneous				5,440	5,440
<i>Total General Receipts</i>				<u>471,527</u>	<u>471,527</u>
Change in Net Assets				(54,133)	(54,133)
<i>Net Assets Beginning of Year</i>				<u>181,904</u>	<u>181,904</u>
<i>Net Assets End of Year</i>				<u>\$ 127,771</u>	<u>\$ 127,771</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING COUNTY
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005

	General	Road and Bridge	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	\$ 47,619	\$ 31,766	\$ 48,386	\$ 127,771
<i>Total Assets</i>	<u>\$ 47,619</u>	<u>\$ 31,766</u>	<u>\$ 48,386</u>	<u>\$ 127,771</u>
Fund Balances				
Reserved:				
Reserved for Encumbrances	\$ 738	\$ 7,954	\$ 1,355	\$ 10,047
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	46,881	-	-	46,881
Special Revenue Funds	-	\$ 23,812	47,031	70,843
<i>Total Fund Balances</i>	<u>\$ 47,619</u>	<u>\$ 31,766</u>	<u>\$ 48,386</u>	<u>\$ 127,771</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING 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	Other Governmental Funds	Total Governmental Funds
Receipts				
Property and Other Local Taxes	\$ 119,462	\$ 181,144	\$ 68,230	\$ 368,836
Fines, Licenses and Permits	-	-	9,540	9,540
Intergovernmental	63,305	23,190	137,844	224,339
Interest	2,035	-	119	2,154
Miscellaneous	-	2,834	2,506	5,340
<i>Total Receipts</i>	<u>184,802</u>	<u>207,168</u>	<u>218,239</u>	<u>610,209</u>
Disbursements				
Current:				
General Government	168,557	-	2,400	170,957
Security of Persons and Property	-	-	65,633	65,633
Health	9,265	-	7,385	16,650
Public Works	-	259,139	117,669	376,808
Capital Outlay	18	3,952	11,813	15,783
Debt Service:				
Principal Retirement	-	-	16,328	16,328
Interest and Fiscal Charges	-	-	2,283	2,283
<i>Total Disbursements</i>	<u>177,840</u>	<u>263,091</u>	<u>223,511</u>	<u>664,442</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	6,962	(55,923)	(5,272)	(54,233)
Other Financing Sources (Uses)				
Transfers In	-	-	2,500	2,500
Transfers Out	(2,500)	-	-	(2,500)
Advances In	500	17,497	17,997	35,994
Advances Out	(500)	(17,497)	(17,997)	(35,994)
Other Financing Sources	100	-	-	100
<i>Total Other Financing Sources (Uses)</i>	<u>(2,400)</u>	<u>-</u>	<u>2,500</u>	<u>100</u>
<i>Net Change in Fund Balances</i>	4,562	(55,923)	(2,772)	(54,133)
<i>Fund Balances Beginning of Year</i>	<u>43,057</u>	<u>87,689</u>	<u>51,158</u>	<u>181,904</u>
<i>Fund Balances End of Year</i>	<u>\$ 47,619</u>	<u>\$ 31,766</u>	<u>\$ 48,386</u>	<u>\$ 127,771</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING 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			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Receipts				
Property and Other Local Taxes	\$ 133,700	\$ 133,700	\$ 119,462	\$ (14,238)
Intergovernmental	67,600	67,600	63,305	(4,295)
Interest	1,100	1,100	2,035	935
<i>Total receipts</i>	<u>202,400</u>	<u>202,400</u>	<u>184,802</u>	<u>(17,598)</u>
Disbursements				
Current:				
General Government	223,874	223,874	169,295	54,579
Health	10,065	10,065	9,265	800
Capital Outlay	7,000	7,000	18	6,982
<i>Total Disbursements</i>	<u>240,939</u>	<u>240,939</u>	<u>178,578</u>	<u>62,361</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(38,539)	(38,539)	6,224	44,763
Other Financing Sources (Uses)				
Transfers In	100	100	-	(100)
Transfers Out	(5,118)	(5,118)	(2,500)	2,618
Advances In	100	100	500	400
Advances Out	-	-	(500)	(500)
Other Financing Sources	400	400	100	(300)
<i>Total Other Financing Sources (Uses)</i>	<u>(4,518)</u>	<u>(4,518)</u>	<u>(2,400)</u>	<u>2,118</u>
<i>Net Change in Fund Balance</i>	(43,057)	(43,057)	3,824	46,881
<i>Fund Balance Beginning of Year</i>	42,762	42,762	42,762	-
Prior Year Encumbrances Appropriated	295	295	295	-
<i>Fund Balance End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,881</u>	<u>\$ 46,881</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING 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

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$ 187,000	\$ 187,000	\$ 181,144	\$ (5,856)
Intergovernmental	12,000	12,000	23,190	11,190
Miscellaneous	3,500	20,997	20,331	(666)
<i>Total receipts</i>	<u>202,500</u>	<u>219,997</u>	<u>224,665</u>	<u>4,668</u>
Disbursements				
Current:				
Public Works	268,650	328,345	284,590	43,755
Capital Outlay	4,000	4,000	3,952	48
<i>Total Disbursements</i>	<u>272,650</u>	<u>332,345</u>	<u>288,542</u>	<u>43,803</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(70,150)	(112,348)	(63,877)	48,471
Other Financing Sources (Uses)				
Transfers In	25,000	25,000	-	(25,000)
Transfers Out	(41,686)	(186)	-	186
<i>Total Other Financing Sources (Uses)</i>	<u>(16,686)</u>	<u>24,814</u>	<u>-</u>	<u>(24,814)</u>
<i>Net Change in Fund Balance</i>	(86,836)	(87,534)	(63,877)	23,657
<i>Fund Balance Beginning of Year</i>	86,836	86,836	86,836	-
Prior Year Encumbrances Appropriated	853	853	853	-
<i>Fund Balance End of Year</i>	<u>\$ 853</u>	<u>\$ 155</u>	<u>\$ 23,812</u>	<u>\$ 23,657</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING COUNTY

Statement of Net Assets - Cash Basis

December 31, 2004

	Governmental Activities
Assets	
Equity in Pooled Cash and Investments	\$ 181,904
<i>Total Assets</i>	<u>\$ 181,904</u>
Net Assets	
Restricted for:	
Other Purposes	\$ 138,847
Unrestricted	43,057
<i>Total Net Assets</i>	<u>\$ 181,904</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING COUNTY

*Statement of Activities - Cash Basis
For the Year Ended December 31, 2004*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets	
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Total
Governmental Activities					
General Government	\$ 196,342	-	-	\$ (196,342)	\$ (196,342)
Security of Persons and Property	51,040	-	-	(51,040)	(51,040)
Health	10,653	\$ 2,325	-	(8,328)	(8,328)
Public Works	228,549	-	\$ 106,070	(122,479)	(122,479)
Capital Outlay	17,848	-	-	(17,848)	(17,848)
Debt Service:					
Principal Retirement	17,337	-	-	(17,337)	(17,337)
Interest and Fiscal Charges	1,719	-	-	(1,719)	(1,719)
<i>Total Governmental Activities</i>	<u>523,488</u>	<u>2,325</u>	<u>106,070</u>	<u>(415,093)</u>	<u>(415,093)</u>
Total	<u>\$ 523,488</u>	<u>\$ 2,325</u>	<u>\$ 106,070</u>	<u>(415,093)</u>	<u>(415,093)</u>
General Receipts					
Property Taxes Levied for:					
General Purposes				\$ 275,062	\$ 275,062
Other Taxes				92,188	92,188
Grants and Entitlements not Restricted to					
Specific Programs				83,479	83,479
Interest				1,115	1,115
Miscellaneous				5,837	5,837
<i>Total General Receipts</i>				<u>457,681</u>	<u>457,681</u>
Change in Net Assets				42,588	42,588
<i>Net Assets Beginning of Year</i>				<u>139,316</u>	<u>139,316</u>
<i>Net Assets End of Year</i>				<u>\$ 181,904</u>	<u>\$ 181,904</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING COUNTY
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2004

	<u>General</u>	<u>Road and Bridge</u>	<u>Fire District Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Investments	\$ 43,057	\$ 87,689	\$ 28,572	\$ 22,586	\$ 181,904
<i>Total Assets</i>	<u>\$ 43,057</u>	<u>\$ 87,689</u>	<u>\$ 28,572</u>	<u>\$ 22,586</u>	<u>\$ 181,904</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$ 295	\$ 853	\$ 7,372	\$ 595	\$ 9,115
Unreserved:					
Undesignated (Deficit), Reported in:					
General Fund	42,762	-	-	-	42,762
Special Revenue Funds	-	\$ 86,836	21,200	21,991	130,027
<i>Total Fund Balances</i>	<u>\$ 43,057</u>	<u>\$ 87,689</u>	<u>\$ 28,572</u>	<u>\$ 22,586</u>	<u>\$ 181,904</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING COUNTY

Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances

Governmental Funds

For the Year Ended December 31, 2004

	General	Road and Bridge	Fire District Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Property and Other Local Taxes	\$ 126,583	\$ 169,882	\$ 70,785	\$ -	\$ 367,250
Fines, Licenses and Permits	-	-	-	\$ 2,325	2,325
Intergovernmental	67,443	10,972	5,064	106,070	189,549
Interest	1,036	-	-	79	1,115
Miscellaneous	-	3,492	-	2,253	5,745
<i>Total Receipts</i>	<u>195,062</u>	<u>184,346</u>	<u>75,849</u>	<u>110,727</u>	<u>565,984</u>
Disbursements					
Current:					
General Government	194,061	-	1,944	337	196,342
Security of Persons and Property	-	-	51,040	-	51,040
Health	7,603	-	-	3,050	10,653
Public Works	-	155,344	-	73,205	228,549
Capital Outlay	3,062	-	-	14,786	17,848
Debt Service:					
Principal Retirement	-	-	-	17,337	17,337
Interest and Fiscal Charges	-	-	-	1,719	1,719
<i>Total Disbursements</i>	<u>204,726</u>	<u>155,344</u>	<u>52,984</u>	<u>110,434</u>	<u>523,488</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(9,664)	29,002	22,865	293	42,496
Other Financing Sources (Uses)					
Transfers In	-	-	-	12,381	12,381
Transfers Out	(12,381)	-	-	-	(12,381)
Advances In	1,500	-	-	1,500	3,000
Advances Out	(1,500)	-	-	(1,500)	(3,000)
Other Financing Sources	92	-	-	-	92
<i>Total Other Financing Sources (Uses)</i>	<u>(12,289)</u>	<u>-</u>	<u>-</u>	<u>12,381</u>	<u>92</u>
<i>Net Change in Fund Balances</i>	(21,953)	29,002	22,865	12,674	42,588
<i>Fund Balances Beginning of Year</i>	<u>65,010</u>	<u>58,687</u>	<u>5,707</u>	<u>9,912</u>	<u>139,316</u>
<i>Fund Balances End of Year</i>	<u>\$ 43,057</u>	<u>\$ 87,689</u>	<u>\$ 28,572</u>	<u>\$ 22,586</u>	<u>\$ 181,904</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING COUNTY
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2004*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property and Other Local Taxes	\$ 109,630	\$ 109,630	\$ 126,583	\$ 16,953
Intergovernmental	93,825	93,825	67,443	(26,382)
Interest	3,000	3,000	1,036	(1,964)
<i>Total receipts</i>	<u>206,455</u>	<u>206,455</u>	<u>195,062</u>	<u>(11,393)</u>
Disbursements				
Current:				
General Government	192,641	222,351	194,356	27,995
Health	7,000	10,000	7,603	2,397
Capital Outlay	7,000	7,000	3,062	3,938
<i>Total Disbursements</i>	<u>206,641</u>	<u>239,351</u>	<u>205,021</u>	<u>34,330</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(186)	(32,896)	(9,959)	22,937
Other Financing Sources (Uses)				
Transfers In	100	100	-	(100)
Transfers Out	(64,855)	(32,814)	(12,381)	20,433
Advances In	-	-	1,500	1,500
Advances Out	-	-	(1,500)	(1,500)
Other Financing Sources	600	600	92	(508)
<i>Total Other Financing Sources (Uses)</i>	<u>(64,155)</u>	<u>(32,114)</u>	<u>(12,289)</u>	<u>19,825</u>
<i>Net Change in Fund Balance</i>	(64,341)	(65,010)	(22,248)	42,762
<i>Fund Balance Beginning of Year</i>	64,340	64,340	64,340	-
Prior Year Encumbrances Appropriated	670	670	670	-
<i>Fund Balance End of Year</i>	<u>\$ 669</u>	<u>\$ -</u>	<u>\$ 42,762</u>	<u>\$ 42,762</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING 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, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property and Other Local Taxes	\$ 159,160	\$ 159,160	\$ 169,882	\$ 10,722
Intergovernmental	22,100	22,100	10,972	(11,128)
Miscellaneous	1,000	1,000	3,492	2,492
<i>Total receipts</i>	<u>182,260</u>	<u>182,260</u>	<u>184,346</u>	<u>2,086</u>
Disbursements				
Current:				
Public Works	256,150	257,802	156,197	101,605
Capital Outlay	8,200	8,200	-	8,200
<i>Total Disbursements</i>	<u>264,350</u>	<u>266,002</u>	<u>156,197</u>	<u>109,805</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(82,090)	(83,742)	28,149	111,891
Other Financing Sources (Uses)				
Transfers In	75,000	75,000	-	(75,000)
Transfers Out	(49,945)	(49,945)	-	49,945
Advances In	-	2,993	-	(2,993)
<i>Total Other Financing Sources (Uses)</i>	<u>25,055</u>	<u>28,048</u>	<u>-</u>	<u>(28,048)</u>
<i>Net Change in Fund Balance</i>	(57,035)	(55,694)	28,149	83,843
<i>Fund Balance Beginning of Year</i>	57,035	57,035	57,035	-
Prior Year Encumbrances Appropriated	<u>1,652</u>	<u>1,652</u>	<u>1,652</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$ 1,652</u>	<u>\$ 2,993</u>	<u>\$ 86,836</u>	<u>\$ 83,843</u>

See accompanying notes to the basic financial statements

FALLS TOWNSHIP, HOCKING COUNTY
*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Fire District Fund
For the Year Ended December 31, 2004*

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property and Other Local Taxes	\$ 65,900	\$ 65,900	\$ 70,785	\$ 4,885
Intergovernmental	7,600	7,600	5,064	(2,536)
<i>Total receipts</i>	<u>73,500</u>	<u>73,500</u>	<u>75,849</u>	<u>2,349</u>
Disbursements				
Current:				
General Government	1,500	2,000	1,944	56
Security of Persons and Property	77,375	76,975	58,412	18,563
<i>Total Disbursements</i>	<u>78,875</u>	<u>78,975</u>	<u>60,356</u>	<u>18,619</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(5,375)	(5,475)	15,493	20,968
Other Financing Sources (Uses)				
Transfers Out	(332)	(232)	-	(232)
<i>Total Other Financing Sources (Uses)</i>	<u>(332)</u>	<u>(232)</u>	<u>-</u>	<u>(232)</u>
<i>Net Change in Fund Balance</i>	(5,707)	(5,707)	15,493	21,200
<i>Fund Balance Beginning of Year</i>	<u>5,707</u>	<u>5,707</u>	<u>5,707</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,200</u>	<u>\$ 21,200</u>

See accompanying notes to the basic financial statements

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 1 – Reporting Entity

Falls Township, Hocking 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 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. 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, including road and bridge maintenance and cemetery maintenance. The Township contracts with the City of Logan and the Village of New Straitsville to provide fire and emergency services.

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 cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. 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 cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Township does not apply FASB statements issued after November 30, 1989, to its governmental activities. 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.

Government-Wide Financial Statements

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

The statement of net assets presents the cash balance of the governmental activities of the Township at year end. The statement of activities compares disbursements with program receipts for each of the Township's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Township is responsible. Program receipts include charges paid by the recipient of the program's goods or services

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

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, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the Township's general receipts.

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. The funds of the Township are included in one category, 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 the General Fund, the Road and Bridge Fund and the Fire District Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio. The Road and Bridge Fund receives property tax money for constructing, maintaining, and repairing Township roads and bridges. The Fire District Fund receives property tax money to provide fire protection to the residents of the Township through contracts with the City of Logan and the Village of New Straitsville.

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 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 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.

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

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 appropriation 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 Board may appropriate.

The appropriation resolution is the Township Board's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Township Board. The legal level of control has been established at the fund 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 Board.

The appropriation resolution 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 Board during the year.

E. Cash and Investments

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

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments 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 and 2004, the Township invested in nonnegotiable certificates of deposit. The nonnegotiable certificates of deposit are reported at cost.

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 and 2004 were \$2,035 and \$1,036 respectively.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Township did not have any restricted assets.

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

G. 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.

H. 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.

I. 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.

J. 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 cash basis of accounting.

K. Employer Contributions to Cost-Sharing Pension Plans

The Township recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The Township's cash basis financial statements report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. The Township did not have such transactions in 2005 and 2004.

M. 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.

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.

N. 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.

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

O. Interfund Transactions

Transfers between governmental and business-type 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 cash basis of accounting described in note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

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, the Road and Bridge Fund and the Fire District 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 cash basis is outstanding year-end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year-end 2005 (budgetary basis) amounted to \$738 for the General Fund and \$7,954 for the Road and Bridge Fund. At year-end 2004, the encumbrances amounted to \$295 for the General Fund, \$853 for the Road and Bridge Fund and \$7,372 for the Fire District Fund.

Note 5 – Deposits and Investments

State statutes classify monies held by the Township into three categories.

Active deposits are public deposits necessary to meet current demands on the Township treasury. Such 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 Township has identified as not required for use within the current five-year period of designation of depositories. Inactive deposits must either be evidenced by 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 may be deposited or invested in the following securities:

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

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. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Custodial credit risk for deposits 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. The Township only has demand deposits and certificates of deposit. At December 31, 2005, \$41,985 of the Township's bank balance of \$141,985 and at December 31, 2004, \$107,286 of the Township's bank balance of \$207,286 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name.

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

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

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

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 \$3.60 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 and 2004 property tax receipts were based are as follows:

	<u>2005</u>	<u>2004</u>
Real Property		
Residential/Agricultural	\$ 68,499,060	\$ 66,957,730
Other	4,978,880	4,856,730
Tangible Personal Property		
General	4,769,878	5,259,873
Public Utilities	<u>4,561,770</u>	<u>4,557,430</u>
Total Valuation	<u>\$ 82,809,588</u>	<u>\$ 81,631,763</u>

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 8 – 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 and 2004 the Township contracted with the 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
Wrongful Acts	2,000,000	Per Occurrence
Property	1,250,000	Total Coverage

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 9 – Defined Benefit Pension Plans

A. 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.

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

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 \$17,443, \$19,265, and \$16,875, respectively. The full amount has been contributed for 2005, 2004 and 2003.

Note 10 - Postemployment Benefits

A. 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 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; 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.

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 which were used to fund postemployment benefits were \$5,149 for 2005 and \$5,687 for 2004. 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 \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 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.

Note 11 - Notes Payable

A summary of the note transactions for the years ended December 31, 2004 and 2005 follows:

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

	Interest Rate	Balance at 1/1/2004	Increase	Decrease	Balance at 12/31/2004
Governmental Activities:					
Backhoe - G.O. Note	5.75%	\$ 12,539	-	\$ 6,774	\$ 5,765
Truck - G.O. Note	4.00%	42,252	-	10,563	31,689
Total Governmental Activities		<u>\$ 54,791</u>	<u>-</u>	<u>\$ 17,337</u>	<u>\$ 37,454</u>
		Balance at 1/1/2005	Increase	Decrease	Balance at 12/31/2005
Governmental Activities:					
Backhoe - G.O. Note	5.75%	\$ 5,765	-	\$ 5,765	\$ -
Truck - G.O. Note	4.00%	31,689	-	10,563	21,126
Total Governmental Activities		<u>\$ 37,454</u>	<u>-</u>	<u>\$ 16,328</u>	<u>\$ 21,126</u>

The Township issued a general obligation note in 2002 for \$52,815 for the purchase of a truck. This note is backed by the full faith and credit of the Township. This loan is being repaid from the Motor Vehicle License Tax and Gas Tax funds.

The following is a summary of the Township's future annual debt service requirements:

Year Ending December 31	<u>Truck</u>	
	<u>G.O. Note</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 10,563	845
2007	10,563	422
Total	<u>\$ 21,126</u>	<u>\$ 1,267</u>

Note 12 – Contingent Liabilities

The Township may be a defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the Township's financial condition.

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

Falls Township, Hocking County
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

Note 13 – Interfund Transfers

During 2005 and 2004 the following transfers were made:

Transfers from the General Fund to:	<u>2005</u>	<u>2004</u>
Other Governmental Funds	<u>\$ 2,500</u>	<u>\$ 12,381</u>
Total Transfers from the General Fund	<u>\$ 2,500</u>	<u>\$ 12,381</u>

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. These transfers met all applicable requirements of the Ohio Revised Code.

Note 14 – Interfund Advances

During 2005 and 2004 the following transfers were made:

Advances from the General Fund to:	<u>2005</u>	<u>2004</u>
Other Governmental Funds	<u>\$ 500</u>	<u>\$ 1,500</u>
Total Advances from the General Fund	<u>\$ 500</u>	<u>\$ 1,500</u>

The above transfers were made and repaid within the same fiscal year.

Charles E. Harris & Associates, Inc.
Certified Public Accountants

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland, OH 44113-1306
Office phone - (216) 575-1630
Fax (216) 436-2411

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Falls Township, Hocking County
14370 State Route 93 South
Logan, Ohio 43138

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Falls Township, Hocking County, Ohio (the Township), as of and for the years ended December 31, 2005 and 2004, which collectively comprise the Township's basic financial statements and have issued our report thereon dated July 21, 2006, wherein we noted that the Township uses a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of 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 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 operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management on the Township in a separate letter dated July 21, 2006.

Compliance and Other Matters

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

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

Charles E. Harris and Associates, Inc.
July 21, 2006

STATUS OF PRIOR AUDIT'S CITATIONS AND RECOMMENDATIONS

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



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

FALLS TOWNSHIP

HOCKING 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 17, 2006**