



**RUSSELL TOWNSHIP
GEAUGA COUNTY**

REGUALR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004



**Auditor of State
Betty Montgomery**

**RUSSELL TOWNSHIP
GEAUGA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Russell Township
Geauga County
8501 Kinsman Road
PO Box 522
Novelty, Ohio 44072

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 Russell 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. For the year ending December 31, 2004, we audited the Township's regulatory accounting basis financial statements. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 2, the Township has prepared these financial statements for fiscal year ended December 31, 2004, using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements for the year ended December 31, 2004. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2004 or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Russell Township, Geauga County, Ohio, as of December 31, 2004, and its combined cash receipts and disbursements for the year then ended on the regulatory accounting basis Note 2 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2004. The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

For the year ended December 31, 2005, the Township revised its financial presentation comparable to the requirements of Governmental Accounting Standard Board Statement (GASB) No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

For the year ended December 31, 2004, the Township implemented GASB statement No. 40, *Deposits and Investment Risk Disclosures*.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 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. The Township has not presented Management's Discussion and Analysis for the year ended December 31, 2005, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

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

Betty Montgomery
Auditor of State

October 12, 2006

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

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,862,949
<i>Total Assets</i>	<u><u>\$3,862,949</u></u>
Net Assets	
Restricted for:	
Debt Service	\$263,247
Other Purposes	\$1,367,894
Unrestricted	\$2,231,808
<i>Total Net Assets</i>	<u><u>\$3,862,949</u></u>

See accompanying notes to the basic financial statements

RUSSELL TOWNSHIP
GEAUGA COUNTY
Statement of Activities - Cash Basis
For the Year Ended December 31, 2005

	Cash Disbursements	Operating Grants and Contributions	Capital Grants and Contributions	Net (Disbursements) Receipts and Changes in Net Assets
				Governmental Activities
Governmental Activities				
General Government	\$612,100	\$14,635	\$0	(\$597,465)
Public Safety	1,302,276	2,861	89,355	(1,210,060)
Public Works	1,212,986	100,363	0	(1,112,623)
Health	17,494	8,550	0	(8,944)
Capital Outlay	205,757	0	0	(205,757)
Debt Service:				
Principal	135,000	0	0	(135,000)
Interest	108,938	0	0	(108,938)
<i>Total Governmental Activities</i>	<u>3,594,551</u>	<u>126,409</u>	<u>89,355</u>	<u>(3,378,787)</u>
General Receipts				
Property Taxes				2,354,168
Grants and Entitlements not Restricted to Specific Programs				566,170
Sale of Fixed Assets				6,566
Earnings on Investments				135,043
Miscellaneous				74,509
<i>Total General Receipts</i>				<u>3,136,456</u>
Change in Net Assets				(242,331)
<i>Net Assets Beginning of Year</i>				<u>4,105,280</u>
<i>Net Assets End of Year</i>				<u>\$3,862,949</u>

See accompanying notes to the basic financial statements

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

	General	Road and Bridge	Police District	Fire District	Road District	Other Governmental Funds	Total Governmental Funds
Assets							
Equity in Pooled Cash and Cash Equivalents	\$2,231,808	\$295,487	\$90,858	\$185,716	\$678,353	\$380,727	\$3,862,949
<i>Total Assets</i>	<u>\$2,231,808</u>	<u>\$295,487</u>	<u>\$90,858</u>	<u>\$185,716</u>	<u>\$678,353</u>	<u>\$380,727</u>	<u>\$3,862,949</u>
Fund Balances							
Reserved:							
Reserved for Encumbrances	\$36,416	\$9,228	\$14,324	\$19,147	\$55,609	\$1,204	\$135,928
Unreserved:							
Undesignated (Deficit), Reported in:							
General Fund	2,195,392	0	0	0	0	0	2,195,392
Special Revenue Funds	0	286,259	76,534	166,569	622,744	379,523	1,531,629
<i>Total Fund Balances</i>	<u>\$2,231,808</u>	<u>\$295,487</u>	<u>\$90,858</u>	<u>\$185,716</u>	<u>\$678,353</u>	<u>\$380,727</u>	<u>\$3,862,949</u>

See accompanying notes to the basic financial statements

**RUSSELL TOWNSHIP
GEAUGA 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	Police District	Fire District	Road District	Other Governmental Funds	Total Governmental Funds
Receipts							
Property and Other Local Taxes	\$161,917	\$449,659	\$627,827	\$459,949	\$406,263	\$248,553	\$2,354,168
Licenses, Permits and Fees	32,830	0	2	0	0	19,244	52,076
Fines and Forfeitures	7,455	0	2,000	0	0	0	9,455
Intergovernmental	243,196	63,281	96,292	156,809	61,951	126,904	748,433
Earnings on Investments	130,973	0	0	0	0	4,070	135,043
Miscellaneous	30,907	100	674	7,400	0	5,295	44,376
Total Receipts	607,278	513,040	726,795	624,158	468,214	404,066	3,343,551
Disbursements							
Current:							
General Government	603,671	0	0	0	0	8,429	612,100
Public Safety	5,317	0	777,263	516,900	0	2,796	1,302,276
Public Works	19,384	575,722	0	0	491,179	126,701	1,212,986
Health	15,042	0	0	0	0	2,452	17,494
Capital Outlay	8,128	8,861	850	122,533	58,651	6,734	205,757
Debt Service:							
Principal Retirement	0	0	0	0	0	135,000	135,000
Interest and Fiscal Charges	0	0	0	0	0	108,938	108,938
Total Disbursements	651,542	584,583	778,113	639,433	549,830	391,050	3,594,551
Excess of Receipts Over (Under) Disbursements	(44,264)	(71,543)	(51,318)	(15,275)	(81,616)	13,016	(251,000)
Other Financing Sources (Uses)							
Sale of Fixed Assets	0	0	0	0	6,566	0	6,566
Transfers In	276,093	0	0	0	0	0	276,093
Transfers Out	0	0	0	0	0	(276,093)	(276,093)
Other Financing Sources	218	151	293	1,441	0	0	2,103
Total Other Financing Sources (Uses)	276,311	151	293	1,441	6,566	(276,093)	8,669
Net Change in Fund Balances	232,047	(71,392)	(51,025)	(13,834)	(75,050)	(263,077)	(242,331)
Fund Balances Beginning of Year	1,999,761	366,879	141,883	199,550	753,403	643,804	4,105,280
Fund Balances End of Year	\$2,231,808	\$295,487	\$90,858	\$185,716	\$678,353	\$380,727	\$3,862,949

See accompanying notes to the basic financial statements

RUSSELL 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

	Budgeted Amounts			(Optional)
	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Receipts				
Property and Other Local Taxes	\$154,700	\$154,700	\$161,916	\$7,216
Licenses, Permits and Fees	26,000	26,000	32,830	6,830
Fines and Forfeitures	14,000	14,000	7,455	(6,545)
Intergovernmental	136,608	136,608	243,196	106,588
Earnings on Investments	44,000	44,000	130,973	86,973
Miscellaneous	26,926	26,926	30,907	3,981
<i>Total receipts</i>	<u>402,234</u>	<u>402,234</u>	<u>607,277</u>	<u>205,043</u>
Disbursements				
Current:				
General Government	895,910	982,951	618,941	364,010
Public Safety	11,523	17,950	5,434	12,516
Public Works	21,000	33,437	19,843	13,594
Health	27,000	27,000	15,042	11,958
Capital Outlay	1,412,622	1,340,632	28,697	1,311,935
<i>Total Disbursements</i>	<u>2,368,055</u>	<u>2,401,970</u>	<u>687,957</u>	<u>1,714,013</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,965,821)</u>	<u>(1,999,736)</u>	<u>(80,680)</u>	<u>1,919,056</u>
Other Financing Sources (Uses)				
Transfers In	0	0	276,093	276,093
Other Financing Sources	500	500	218	(282)
<i>Total Other Financing Sources (Uses)</i>	<u>500</u>	<u>500</u>	<u>276,311</u>	<u>275,811</u>
<i>Net Change in Fund Balance</i>	(1,965,321)	(1,999,236)	195,631	2,194,867
<i>Fund Balance Beginning of Year</i>	1,963,322	1,963,322	1,963,322	0
Prior Year Encumbrances Appropriated	<u>36,439</u>	<u>36,439</u>	<u>36,439</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$34,440</u>	<u>\$525</u>	<u>\$2,195,392</u>	<u>\$2,194,867</u>

See accompanying notes to the basic financial statements

RUSSELL TOWNSHIP
GEAUGA 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 and Other Local Taxes	\$433,100	\$433,100	\$449,659	\$16,559
Intergovernmental	57,944	57,944	63,281	5,337
Miscellaneous	1,000	1,000	100	(900)
<i>Total receipts</i>	492,044	492,044	513,040	20,996
Disbursements				
Current:				
Public Works	802,223	804,623	584,949	219,674
Capital Outlay	60,000	60,000	8,861	51,139
<i>Total Disbursements</i>	862,223	864,623	593,810	270,813
<i>Excess of Receipts Over (Under) Disbursements</i>	(370,179)	(372,579)	(80,770)	291,809
Other Financing Sources (Uses)				
Other Financing Sources	0	0	151	151
<i>Total Other Financing Sources (Uses)</i>	0	0	151	151
<i>Net Change in Fund Balance</i>	(370,179)	(372,579)	(80,619)	291,960
<i>Fund Balance Beginning of Year</i>	364,478	364,478	364,478	0
Prior Year Encumbrances Appropriated	2,400	2,400	2,400	0
<i>Fund Balance End of Year</i>	(\$3,301)	(\$5,701)	\$286,259	\$291,960

See accompanying notes to the basic financial statements

RUSSELL TOWNSHIP
GEAUGA COUNTY
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Police District Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	(Optional) Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$601,500	\$601,500	\$627,827	\$26,327
Licenses, Permits and Fees	0	0	2	2
Fines and Forfeitures	0	0	2,000	2,000
Intergovernmental	89,848	89,848	96,292	6,444
Miscellaneous	0	0	674	674
<i>Total receipts</i>	<u>691,348</u>	<u>691,348</u>	<u>726,795</u>	<u>35,447</u>
Disbursements				
Current:				
Public Safety	834,562	838,912	791,587	47,325
Capital Outlay	0	850	850	0
<i>Total Disbursements</i>	<u>834,562</u>	<u>839,762</u>	<u>792,437</u>	<u>47,325</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(143,214)</u>	<u>(148,414)</u>	<u>(65,642)</u>	<u>82,772</u>
Other Financing Sources (Uses)				
Other Financing Sources	0	0	293	293
<i>Total Other Financing Sources (Uses)</i>	<u>0</u>	<u>0</u>	<u>293</u>	<u>293</u>
<i>Net Change in Fund Balance</i>	<u>(143,214)</u>	<u>(148,414)</u>	<u>(65,349)</u>	<u>83,065</u>
<i>Fund Balance Beginning of Year</i>	138,315	138,315	138,315	0
Prior Year Encumbrances Appropriated	<u>3,568</u>	<u>3,568</u>	<u>3,568</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>(\$1,331)</u>	<u>(\$6,531)</u>	<u>\$76,534</u>	<u>\$83,065</u>

See accompanying notes to the basic financial statements

RUSSELL TOWNSHIP
GEAUGA COUNTY
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Fire District Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	(Optional) Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$440,924	\$440,924	\$459,949	\$19,025
Intergovernmental	69,359	69,359	156,809	87,450
Miscellaneous	500	500	7,400	6,900
<i>Total receipts</i>	510,783	510,783	624,158	113,375
Disbursements				
Current:				
Public Safety	578,968	578,257	522,384	55,873
Capital Outlay	122,838	137,483	136,196	1,287
<i>Total Disbursements</i>	701,806	715,740	658,580	57,160
<i>Excess of Receipts Over (Under) Disbursements</i>	(191,023)	(204,957)	(34,422)	170,535
Other Financing Sources (Uses)				
Other Financing Sources	0	0	1,441	1,441
<i>Total Other Financing Sources (Uses)</i>	0	0	1,441	1,441
<i>Net Change in Fund Balance</i>	(191,023)	(204,957)	(32,981)	171,976
<i>Fund Balance Beginning of Year</i>	186,624	186,624	186,624	0
Prior Year Encumbrances Appropriated	12,926	12,926	12,926	0
<i>Fund Balance End of Year</i>	\$8,527	(\$5,407)	\$166,569	\$171,976

See accompanying notes to the basic financial statements

RUSSELL TOWNSHIP
GEAUGA COUNTY
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
Road District Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	(Optional) Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$96,900	\$96,900	\$406,263	\$309,363
Intergovernmental	21,764	21,764	61,951	40,187
<i>Total receipts</i>	118,664	118,664	468,214	349,550
Disbursements				
Current:				
Public Works	614,001	614,872	491,659	123,213
Capital Outlay	257,088 #	257,088	113,779	143,309
<i>Total Disbursements</i>	871,089	871,960	605,438	266,522
<i>Excess of Receipts Over (Under) Disbursements</i>	(752,425)	(753,296)	(137,224)	616,072
Other Financing Sources (Uses)				
Sale of Fixed Assets	0	0	6,565	6,565
<i>Total Other Financing Sources (Uses)</i>	0	0	6,565	6,565
<i>Net Change in Fund Balance</i>	(752,425)	(753,296)	(130,659)	622,637
<i>Fund Balance Beginning of Year</i>	752,325	752,325	752,325	0
Prior Year Encumbrances Appropriated	1,078	1,078	1,078	0
<i>Fund Balance End of Year</i>	\$978	\$107	\$622,744	\$622,637

See accompanying notes to the basic financial statements

**RUSSELL TOWNSHIP
GEAUGA COUNTY**

*Combined Statement of Cash Receipts, Cash Disbursements, and
Changes in Fund Cash Balances
All Governmental Funds
For the Year Ended December 31, 2004*

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Local Taxes	\$159,254	\$1,960,538	\$197,939	\$0	\$2,317,731
Intergovernmental	375,147	380,257	25,552	318,792	1,099,748
Licenses, Permits, and Fees	29,273	13,995	0	0	43,268
Fines, Forfeitures, and Penalties	10,992	0	0	0	10,992
Earnings on Investments	55,474	1,099	0	0	56,573
Donations	0	0	13,000	0	13,000
Other Revenue	30,515	4,346	0	0	34,861
Total Cash Receipts	660,655	2,360,235	236,491	318,792	3,576,173
Cash Disbursements:					
Current:					
General Government	544,518	5,643	0	0	550,161
Public Safety	2,146	1,368,286	5,796	57,290	1,433,518
Public Works	5,249	901,857	0	0	907,106
Health	4,875	9,884	0	0	14,759
Capital Outlay	48,124	629,594	0	532,110	1,209,828
Debt Service:					
Redemption of Principal	0	0	201,000	0	201,000
Interest and Fiscal Charges	0	0	94,462	0	94,462
Total Cash Disbursements	604,912	2,915,264	301,258	589,400	4,410,834
Total Receipts Over/(Under) Disbursements	55,743	(555,029)	(64,767)	(270,608)	(834,661)
Other Financing Receipts:					
Sale of Bonds	0	300,000	0	0	300,000
Other Sources	888	11,767	0	0	12,655
Total Other Financing Receipts/(Disbursements)	888	311,767	0	0	312,655
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	56,631	(243,262)	(64,767)	(270,608)	(522,006)
Fund Cash Balances, January 1, 2004	1,943,130	1,831,516	299,654	552,986	4,627,286
Fund Cash Balances, December 31, 2004	\$1,999,761	\$1,588,254	\$234,887	\$282,378	\$4,105,280
Reserve for Encumbrances, December 31, 2004	\$36,439	\$27,743	\$0	\$5,380	\$69,562

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

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004**

Note 1 – Reporting Entity

The Russell Township, Geauga County, Ohio (the Township), is a body politic and corporate established in 1817 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, fire protection, police protection and cemetery maintenance.

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.

The Township has no component units.

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

Note 2 – Summary of Significant Accounting Policies

As discussed further in Note 2.C, these financial statements are presented on a 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 and the fund financial statements for the proprietary funds, 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. Following are the more significant of the Township's accounting policies.

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. 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 or business-type activity 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. All of the funds of the Township are classified as governmental funds.

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 as follows:

General Fund – The General 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.

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

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (continued)

B. Fund Accounting (continued)

Governmental Funds (continued)

Police District Fund -- This fund receives property tax money to provide police protection to the Township residents.

Fire District Fund – This fund receives property tax money to provide fire protection to the Township residents.

Road District Fund – This fund receives property tax money voted on by the citizens for constructing, maintaining and repairing Township roads.

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

For the year ending December 31, 2004, the Township's financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

For fiscal year ending December 31, 2004, the Township's financial statements are prepared using the cash basis of accounting. 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.

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.

D. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Township may appropriate.

The appropriations ordinance is the Township's authorization to spend resources and sets limits on disbursements plus encumbrances at the level of control selected by the Township. The legal level of control has been established at the fund level for all funds.

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (continued)

D. Budgetary Process (continued)

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

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Township during the year.

E. Cash and Investments

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

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During 2005 and 2004, the Township invested in a money market fund and STAR Ohio. The Township’s money market fund investment is recorded at the amount reported by Huntington National Bank on December 31, 2005 and December 31, 2004.

STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2005 and December 31, 2004.

Interest earnings are allocated to Township funds according to State statutes. Interest receipts credited to the General Fund during 2005 was \$130,973 which includes \$52,952 assigned from other Township funds. Interest receipts credited to the General Fund during 2004 was \$55,474 which includes \$27,916 assigned from other Township funds.

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. Restricted assets represent reserve for encumbrances.

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (continued)

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. 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.

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. Long-Term Obligations

The Township's cash basis financial statements do not 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.

L. 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 the construction, maintenance, and repair of Township roads and the provision of police and fire protection.

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.

M. 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.

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 2 – Summary of Significant Accounting Policies (continued)

N. Interfund Transactions

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 and after nonoperating receipts/disbursements in proprietary 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

For fiscal year ending December 31, 2004, the Township reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. For fiscal year ending December 31, 2005, the Township has implemented the cash basis of accounting described in Note 2, which revised the Township's financial presentation to be comparable to the requirements of Governmental Accounting Standard Board (GASB) Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." 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.

For 2004, the Township implemented GASB Statement No. 40, "Deposits and Investment Risk Disclosures." This statement establishes new disclosure requirements for risks associated with deposits and investments.

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. For fiscal year ending December 31, 2005, the Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund, Road and Bridge Fund, Police District Fund, Fire District Fund, and Road District 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 cash basis are outstanding year end encumbrances which are treated as disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$36,416 for the General Fund, \$9,228 for the Road and Bridge Fund, \$14,324 for the Police District Fund, \$19,147 for the Fire District Fund, \$55,609 for the Road District Fund.

For fiscal year ending December 31, 2004, the Township reported the following budgetary activity regarding budgeted receipts and appropriations.

2004 Budgeted vs. Actual Budgetary Basis Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$410,045	\$661,543	\$251,498
Special Revenue	2,292,251	2,672,002	379,751
Debt Service	218,000	236,491	18,491
Capital Projects	322,000	318,792	(3,208)
Total	\$3,242,296	\$3,888,828	\$646,532

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 4 – Budgetary Basis of Accounting (continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,353,174	\$641,351	\$1,711,823
Special Revenue	4,123,765	2,943,007	1,180,758
Debt Service	517,653	301,258	216,395
Capital Projects	874,986	594,780	280,206
Total	<u>\$7,869,578</u>	<u>\$4,480,396</u>	<u>\$3,389,182</u>

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;

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 5 - Deposits and Investments (continued)

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Township, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Township will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end 2005, the carrying amount of the Township's deposits was \$406,613 and the bank balance was \$431,694. Of the bank balance \$132,637 was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Township's name. At fiscal year end 2004, the carrying amount of the Township's deposits was \$559,042 and the bank balance was \$629,585. Of the bank balance \$344,212 was 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.

Investments

As of December 31, 2005 and December 31, 2004, the Township had the following investments:

	<u>Carrying Value</u>	<u>Maturity Date</u>
December 31, 2005		
STAR Ohio	3,456,336	Less Than One Year
Total Portfolio	<u>3,456,336</u>	
December 31, 2004		
STAR Ohio	3,546,238	Less Than One Year
Total Portfolio	<u>3,546,238</u>	

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(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 does not have an investment policy beyond the requirements of state statute. Ohio law 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.

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township has no investment policy dealing with investment custodial risk beyond the requirements in ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

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 2004 represent the collection of 2003 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. Real property tax receipts received in 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, 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 and 2004 represent the collection of 2004 and 2003 taxes, respectively. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2002, were levied after October 1, 2003, 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.

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 6 – Property Taxes (continued)

Tangible personal property tax receipts received in 2005 and 2004 (other than public utility property) represent the collection of 2005 and 2004 taxes, respectively. 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 taxes received in 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. 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 and 2004, was \$21.09 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:

	2005	2004
Real Property		
Residential/Agriculture	\$229,964,190	\$226,931,350
Commercial/Industrial/Mineral	2,745,980	2,750,040
Public Utility Property		
Personal	5,943,160	5,995,460
Tangible Personal Property	510,920	1,069,170
Total Assessed Value	\$239,164,250	\$236,746,020

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. During 2005 & 2004 the Township contracted with Arrowhead Public Risk Facility.

General Liability	\$1,000,000	Per Occurrence
Automobile Liability	\$1,000,000	Per Occurrence
Law Enforcement Liability	\$1,000,000	Per Occurrence
Crime	\$1,000,000	Per Occurrence
Property Liability	\$1,000,000	Per Occurrence
Public Officials Liability	\$1,000,000	Per Occurrence
Employment Practices Liability	\$1,000,000	Per Occurrence
Umbrella	\$1,000,000	Per Occurrence

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.

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 8 – Defined Benefit Pension Plan

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) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005 and December 31, 2004, 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 and 2004 was 9.55 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 \$136,001, \$125,518, and \$119,250 respectively. The full amount has been contributed for 2005, 2004 and 2003.

B. Social Security

Effective August 3, 1992, new part-time Township fire-fighters and all emergency medical staff are no longer covered by Public Employees Retirement System and must contribute to social security. The Township's liability is 6.2 percent of wages paid.

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 9 - Postemployment 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 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 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 and 2004 which were used to fund postemployment benefits were \$56,964 and \$52,573 respectively. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 10 – Debt

The Township's long-term debt activity for the year ended December 31, 2004, was as follows:

	Interest Rate	Balance January 1, 2004	Additions	Reduction s	Balance December 31, 2004	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
2002 Issue (Original Amount \$3,952,225)	1.5% to 4.85%	\$2,429,999	\$0	\$105,000	\$2,324,999	\$105,000
Russell School Land Purchase						
1999 Issue	0%	96,000	0	96,000	0	0
Fire Truck Acquisition Bonds						
2004 Issue (Original Amount \$300,000)	4.17%	0	300,000	0	300,000	\$30,000
		<u>\$2,525,999</u>	<u>\$300,000</u>	<u>\$201,000</u>	<u>\$2,624,999</u>	<u>\$135,000</u>

During the audit period the West Geauga Schools released the Township from \$13,000 of debt related to the Russell School Land Purchase. The Township paid the remaining \$83,000 during 2004.

The Township's long-term debt activity for the year ended December 31, 2005 was as follows

	Interest Rate	Balance January 1, 2005	Additions	Reduction s	Balance December 31, 2005	Due Within One Year
<u>Governmental Activities</u>						
General Obligation Bonds						
2002 Issue (Original Amount \$3,952,225)	1.5% to 4.85%	\$2,324,999	\$0	\$105,000	\$2,219,999	\$110,000
Fire Truck Acquisition Bonds						
2004 Issue (Original Amount \$300,000)	4.17%	\$300,000	\$0	\$30,000	\$270,000	\$30,000
		<u>\$2,624,999</u>	<u>\$0</u>	<u>\$135,000</u>	<u>\$2,489,999</u>	<u>\$140,000</u>

The general obligation bonds are supported by the full faith and credit of the Township and are payable from unvoted property tax receipts to the extent that other resources are not available to meet annual principal and interest payments.

**Russell Township
Geauga County
Notes to the Financial Statements
For the Year Ended December 31, 2005 and December 31, 2004
(Continued)**

Note 10 – Debt (continued)

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

Year	G.O. Bonds	
	Principal	Interest
2006	\$140,000	\$101,259
2007	140,000	96,983
2008	145,000	92,432
2009	150,000	87,386
2010 – 2104	624,999	524,729
2015 – 2019	750,000	238,237
2020 – 2024	540,000	53,350
Totals	\$ 2,48,999	\$ 3,924,247

The Ohio Revised Code provides that net general obligation debt of the Township, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the Township. The Revised Code further provides that total voted and unvoted net debt of the Township less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation. The effects of the debt limitations at December 31, 2005, were an overall debt margin of \$25,112,246 and an unvoted debt margin of \$13,154,033.

Note 11 – Subsequent Events

During October 2006 the Township purchased land at 8470 Kinsman Road for \$50,000.



**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**

Russell Township
Geauga County
8501 Kinsman Road
PO Box 522
Novelty, Ohio 44072

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 the Russell 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 we have audited the regulatory accounting basis financial statements of the Township as of and for the year ended December 31, 2004, and have issued our report thereon dated October 12, 2006, wherein we noted for fiscal year ended December 31, 2005, the Township revised its financial statement presentation comparable to the requirements of Governmental Accounting Standards Board statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. We also noted for fiscal year ended December 31, 2004, the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township 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 opinions 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. In a separate letter to the Township's management dated October 12, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

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 we must report under *Government Auditing Standards*. In a separate letter to the Township's management dated October 12, 2006, we reported an other matter related to noncompliance we deemed immaterial.

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.



Betty Montgomery
Auditor of State

October 12, 2006



**Auditor of State
Betty Montgomery**

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

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800-282-0370

Facsimile 614-466-4490

RUSSELL 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
NOVEMBER 30, 2006**