

***CHATHAM TOWNSHIP
MEDINA COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2005

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



Mary Taylor, CPA
Auditor of State

Board of Trustees
Chatham Township
8990 Spencer Lake Rd.
Spencer, Ohio 44275

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

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 20, 2007

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**CHATHAM TOWNSHIP
MEDINA COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Chatham Township
Medina County
P.O. Box 99
Spencer, Ohio 44275

To the Board of Trustees:

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

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

As 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 financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Township, as of December 31, 2005, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund and major special revenue funds thereof for the year then ended in conformity with the cash basis of accounting.

For the 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*.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on 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 a report dated March 9, 2007 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
March 9, 2007

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

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

Highlights

Key highlights for 2005 are as follows:

Net assets of governmental activities decreased \$17,624, or 3 percent, a slight decrease from the prior year.

The Township's general receipts are primarily property and other local taxes. These receipts represent 65 percent of the total cash received for governmental activities during the year. Property and other local tax receipts for 2005 changed very little compared to 2004 as development within the Township has slowed.

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 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.

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

Reporting the Township as a Whole

The statement of net assets and the statement of activities reflect how the Township did financially during 2005, within the limitations of cash basis accounting. The statement of net assets presents the cash balances 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 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, the Township's basic services are reported as governmental activities, including police, fire, streets and parks. Real estate and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Reporting the Township's Most Significant Funds

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

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) are combined and presented in total in a single column. The Township's major governmental funds are the General Fund, Gasoline Tax Fund, Road and Bridge Fund, Cemetery Fund, and Fire and Rescue Operations Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements. There is no reconciliation between the two reports as the Township reports on the cash basis.

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

The Township as a Whole

Table 1 provides a summary of the Township's net assets (assets less liabilities) for 2005 on cash basis:

Net Assets

	<u>Governmental Activities</u>
	<u>2005</u>
Assets	
Cash and Cash Equivalents*	<u>\$ 562,935</u>
Net Assets	
Restricted for:	
Capital Projects	21,133
Other Purposes	370,079
Unrestricted	<u>171,723</u>
Total Net Assets	<u>\$ 562,935</u>

* Cash equivalents are investments which can be quickly converted to cash.

Since this is the first year the Township has reported on this method, there are no comparisons to 2004.

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

Table 2 reflects the changes in net assets in 2005:

(Table 2)
Changes in Net Assets

	Governmental Activities 2005
Receipts:	
Program Receipts:	
Charges for Services and Sales	\$ 20,970
Operating Grants and Contributions	150,354
Total Program Receipts	171,324
General Receipts:	
Property and Other Local Taxes	233,756
Grants and Entitlements Not Restricted to Specific Programs	72,996
Miscellaneous	5,281
Total General Receipts	312,033
Total Receipts	483,357
Disbursements:	
General Government	120,205
Public Safety	118,194
Public Works	205,682
Health	10,125
Other	91
Capital Outlay	5,478
Debt Service:	
Principal	31,257
Interest	9,949
Total Disbursements	500,981
Increase (Decrease) in Net Assets	(17,624)
Net Assets, January 1, 2005	580,559
Net Assets, December 31, 2005	\$ 562,935

Program receipts represent only 35 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and fees, and fees and sales for cemetery.

General receipts represent 65 percent of the Township's total receipts, and of this amount, over 75 percent are local taxes. Grants and entitlements make up the balance of the Township's general receipts. Other receipts are somewhat insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Township and the support services provided by the Township. These include the costs of operations of the Roads Department, Cemetery, and General Administration of the Township, along with usual payroll and purchasing.

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

Public Safety represents the costs of fire protection; health is the health department and solid waste removal; and public works is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities on page 9, 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 general government and public works, which account for 24 and 41 percent of all governmental disbursements, respectively. Public safety also represents a significant cost, about 24 percent. The next two columns of the Statement entitled Program Receipts identify (1) amounts paid by people who are directly charged for the service, and (2) 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 is paid 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

	Total Cost of Services 2005	Net Cost of Services 2005
	2005	2005
General Government	\$ 120,205	\$ (120,205)
Public Safety	118,194	(75,971)
Public Works	205,682	(100,006)
Health	10,125	(7,975)
Other	91	21,184
Capital Outlay	5,478	(5,478)
Debt Service:		
Principal payments	31,257	(31,257)
Interest	9,949	(9,949)
Total Expenses	\$ 500,981	\$ (329,657)

The dependence upon property tax receipts is apparent as over 65 percent of governmental activities are supported through these general receipts.

The Township's Funds

Total governmental funds had receipts of \$483,357 and disbursements of \$500,981. There were no significant changes from 2004.

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

General Fund Budgeting Highlights

The Township's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances (money earmarked for disbursement). The most significant budgeted fund is the General Fund.

During 2005, the Township amended its General Fund budget several times to reflect changing circumstances. For 2005, actual receipts were greater than budgeted receipts.

Final disbursements were budgeted at \$283,300 while actual disbursements were \$126,716. The Township kept spending close to budgeted amounts as demonstrated by the large positive variances.

Capital Assets and Debt Administration

Capital Assets

The Township does not currently report its capital assets and infrastructure. Capital assets include long-lived, costly items such as buildings, cars, trucks and equipment. The Township schedules the useful life of capital assets such as cars, trucks and equipment and saves for replacements over their useful lives. Buildings are on regular maintenance schedules. "Infrastructure" represents immovable, common capital assets such as roads, bridges, tennis courts, and street lights. These assets are also covered by maintenance schedules designed to avoid decline or decay, and the subsequent need for early replacement.

Debt

At December 31, 2005, the Township's outstanding debt was \$113,417 in a loan issued by Farmers Savings Bank, for an E-One pumper fire truck. This loan will be satisfied in 2007. For further information regarding the Township's debt, refer to Note 10 to the basic financial statements.

Current Issues

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and local government assistance along with pursuing possible grants to provide for the Township.

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 Susan Arters, Fiscal Officer, P.O. Box 99, Spencer, Ohio 44275.

Chatham Township, Medina County

Statement of Net Assets - Cash Basis

December 31, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 562,935</u>
Net Assets	
Restricted for:	
Capital Projects	\$ 21,133
Other Purposes	370,079
Unrestricted	<u>171,723</u>
<i>Total Net Assets</i>	<u>\$ 562,935</u>

See accompanying notes to the basic financial statements

Chatham Township, Medina County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2005

	<u>Program Cash Receipts</u>			<u>Net (Disbursements) Receipts and Changes in Net Assets</u>
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental Activities				
General Government	\$ 120,205	-	-	\$ (120,205)
Public Safety	118,194	-	\$ 42,223	(75,971)
Public Works	205,682	\$ 10,330	95,346	(100,006)
Health	10,125	2,150	-	(7,975)
Other	91	8,490	12,785	21,184
Capital Outlay	5,478	-	-	(5,478)
Debt Service:				
Principal Retirement	31,257	-	-	(31,257)
Interest and Fiscal Charges	9,949	-	-	(9,949)
<i>Total Governmental Activities</i>	<u>\$ 500,981</u>	<u>\$ 20,970</u>	<u>\$ 150,354</u>	(329,657)
General Receipts				
Property Taxes Levied for:				
General Purposes				33,879
Special Purposes				199,877
Grants and Entitlements not Restricted to				
Specific Programs				72,996
Miscellaneous				5,281
<i>Total General Receipts</i>				<u>312,033</u>
Change in Net Assets				(17,624)
<i>Net Assets Beginning of Year</i>				<u>580,559</u>
<i>Net Assets End of Year</i>				<u>\$ 562,935</u>

See accompanying notes to the basic financial statements

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

	General	Gasoline Tax Fund	Road and Bridge Fund	Cemetery Fund	Fire and Rescue Operations Fund	Other Governmental Funds	Total Governmental Funds
Assets							
Equity in Pooled Cash and Cash Equivalents	\$ 171,723	\$ 47,015	\$ 69,504	\$ 61,591	\$ 114,016	\$ 99,086	\$ 562,935
Fund Balances							
Reserved:							
Reserved for Encumbrances	\$ 511	\$ 303	-	-	-	-	\$ 814
Unreserved:							
Undesignated (Deficit), Reported in:							
General Fund	171,212	-	-	-	-	-	171,212
Special Revenue Funds	-	\$ 46,712	\$ 69,504	\$ 61,591	\$ 114,016	\$ 77,953	369,776
Capital Projects Funds	-	-	-	-	-	21,133	21,133
<i>Total Fund Balances</i>	<u>\$ 171,723</u>	<u>\$ 47,015</u>	<u>\$ 69,504</u>	<u>\$ 61,591</u>	<u>\$ 114,016</u>	<u>\$ 99,086</u>	<u>\$ 562,935</u>

See accompanying notes to the basic financial statements

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

	General	Gasoline Tax Fund	Road and Bridge Fund	Cemetery Fund	Fire and Rescue Operations Fund	Other Governmental Funds	Total Governmental Funds
Receipts							
Property and Other Local Taxes	\$ 33,879	-	\$ 93,167	\$ 4,377	\$ 92,002	\$ 10,330	\$ 233,755
Licenses, Permits and Fees	3,922	-	-	3,425	-	-	7,347
Intergovernmental	57,742	\$ 81,231	12,913	585	54,420	14,115	221,006
Interest	10,619	681	-	-	-	1,350	12,650
Other	1,629	-	76	2,182	4,712	-	8,599
<i>Total Receipts</i>	<u>107,791</u>	<u>81,912</u>	<u>106,156</u>	<u>10,569</u>	<u>151,134</u>	<u>25,795</u>	<u>483,357</u>
Disbursements							
Current:							
General Government	120,205	-	-	-	-	-	120,205
Public Safety	-	-	47	-	118,147	-	118,194
Public Works	6,000	65,863	104,991	-	-	28,828	205,682
Health	-	-	-	10,125	-	-	10,125
Other	-	-	-	-	91	-	91
Capital Outlay	-	-	1,455	3,705	-	318	5,478
Debt Service:							
Principal Retirement	-	-	-	-	31,257	-	31,257
Interest and Fiscal Charges	-	-	-	-	9,949	-	9,949
<i>Total Disbursements</i>	<u>126,205</u>	<u>65,863</u>	<u>106,493</u>	<u>13,830</u>	<u>159,444</u>	<u>29,146</u>	<u>500,981</u>
<i>Net Change in Fund Balances</i>	(18,414)	16,049	(337)	(3,261)	(8,310)	(3,351)	(17,624)
<i>Fund Balances Beginning of Year</i>	<u>190,137</u>	<u>30,966</u>	<u>69,841</u>	<u>64,852</u>	<u>122,326</u>	<u>102,437</u>	<u>580,559</u>
<i>Fund Balances End of Year</i>	<u>\$ 171,723</u>	<u>\$ 47,015</u>	<u>\$ 69,504</u>	<u>\$ 61,591</u>	<u>\$ 114,016</u>	<u>\$ 99,086</u>	<u>\$ 562,935</u>

See accompanying notes to the basic financial statements

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Property and Other Local Taxes	\$ 28,725	\$ 28,725	\$ 33,879	\$ 5,154
Licenses, Permits and Fees	3,500	3,500	3,922	422
Intergovernmental	55,296	55,296	57,742	2,446
Interest	9,000	9,000	10,619	1,619
Other	1,456	1,456	1,629	173
<i>Total receipts</i>	97,977	97,977	107,791	9,814
Disbursements				
Current:				
General Government	197,100	197,100	120,716	76,384
Public Works	6,000	6,000	6,000	-
Health	200	200	-	200
Capital Outlay	80,000	80,000	-	80,000
<i>Total Disbursements</i>	283,300	283,300	126,716	156,584
<i>Excess of Receipts Over (Under) Disbursements</i>	(185,323)	(185,323)	(18,925)	166,398
<i>Fund Balance Beginning of Year</i>	190,137	190,137	190,137	-
<i>Fund Balance End of Year</i>	\$ 4,814	\$ 4,814	\$ 171,212	\$ 166,398

See accompanying notes to the basic financial statements

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Receipts				
Intergovernmental	\$ 52,700	\$ 52,700	\$ 81,231	28,531
Interest	600	600	681	81
<i>Total receipts</i>	<u>53,300</u>	<u>53,300</u>	<u>81,912</u>	<u>28,612</u>
Disbursements				
Current:				
Public Works	78,000	78,000	66,166	11,834
Capital Outlay	4,500	4,500	-	4,500
<i>Total Disbursements</i>	<u>82,500</u>	<u>82,500</u>	<u>66,166</u>	<u>16,334</u>
<i>Net Change in Fund Balance</i>	(29,200)	(29,200)	15,746	44,946
<i>Fund Balance Beginning of Year</i>	<u>30,966</u>	<u>30,966</u>	<u>30,966</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$ 1,766</u>	<u>\$ 1,766</u>	<u>\$ 46,712</u>	<u>\$ 44,946</u>

See accompanying notes to the basic financial statements

Chatham Township, Medina 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 Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Receipts				
Property and Other Local Taxes	\$ 80,500	\$ 80,500	\$ 93,167	\$ 12,667
Intergovernmental	1,000	1,000	12,913	11,913
Other	825	825	76	(749)
<i>Total receipts</i>	<u>82,325</u>	<u>82,325</u>	<u>106,156</u>	<u>23,831</u>
Disbursements				
Current:				
Public Safety	100	100	47	53
Public Works	120,006	120,006	104,991	15,015
Capital Outlay	30,994	30,994	1,455	29,539
<i>Total Disbursements</i>	<u>151,100</u>	<u>151,100</u>	<u>106,493</u>	<u>44,607</u>
<i>Net Change in Fund Balance</i>	(68,775)	(68,775)	(337)	68,438
<i>Fund Balance Beginning of Year</i>	<u>69,841</u>	<u>69,841</u>	<u>69,841</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$ 1,066</u>	<u>\$ 1,066</u>	<u>\$ 69,504</u>	<u>\$ 68,438</u>

See accompanying notes to the basic financial statements

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

	<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	\$ 4,550	\$ 4,550	\$ 4,377	\$ (173)
Licenses, Permits and Fees	4,000	4,000	3,425	(575)
Intergovernmental	500	500	585	85
Interest	100	100	-	(100)
Other	1,000	1,000	2,182	1,182
<i>Total receipts</i>	<u>10,150</u>	<u>10,150</u>	<u>10,569</u>	<u>419</u>
Disbursements				
Current:				
Health	19,800	19,800	10,125	9,675
Capital Outlay	35,000	35,000	3,705	31,295
<i>Total Disbursements</i>	<u>54,800</u>	<u>54,800</u>	<u>13,830</u>	<u>40,970</u>
<i>Net Change in Fund Balance</i>	(44,650)	(44,650)	(3,261)	41,389
<i>Fund Balance Beginning of Year</i>	<u>64,852</u>	<u>64,852</u>	<u>64,852</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$ 20,202</u>	<u>\$ 20,202</u>	<u>\$ 61,591</u>	<u>\$ 41,389</u>

See accompanying notes to the basic financial statements

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

	<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	\$ 86,100	\$ 86,100	\$ 92,002	\$ 5,902
Intergovernmental	45,586	45,586	54,420	8,834
Interest	200	200	-	(200)
Other	17,500	17,500	4,712	(12,788)
<i>Total receipts</i>	<u>149,386</u>	<u>149,386</u>	<u>151,134</u>	<u>1,748</u>
Disbursements				
Current:				
Public Safety	194,897	194,897	118,147	76,750
Other	200	200	91	109
Capital Outlay	6,194	6,194	-	6,194
Debt Service:				
Principal Retirement	31,257	31,257	31,257	-
Interest and Fiscal Charges	9,949	9,949	9,949	-
<i>Total Disbursements</i>	<u>242,497</u>	<u>242,497</u>	<u>159,444</u>	<u>83,053</u>
<i>Net Change in Fund Balance</i>	(93,111)	(93,111)	(8,310)	84,801
<i>Fund Balance Beginning of Year</i>	<u>122,326</u>	<u>122,326</u>	<u>122,326</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$ 29,215</u>	<u>\$ 29,215</u>	<u>\$ 114,016</u>	<u>\$ 84,801</u>

See accompanying notes to the basic financial statements

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

Note 1 – Reporting Entity

Chatham Township, Medina County, Ohio (the Township), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township also has an elected 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, fire, maintenance of Township roads, and cemetery maintenance.

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, except for fiduciary funds. The statements distinguish between those activities of the Township that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Township has no business-type activities.

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

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

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 all 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 Gasoline Tax Fund, the Road and Bridge Fund, the Cemetery Fund, and the Fire and Rescue Operations 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 Gasoline Tax Fund receives gasoline tax money to pay for constructing, maintaining and repairing Township roads. The Road and Bridge Fund receives property tax money for constructing, maintaining and repairing Township roads and bridges. The Cemetery Fund receives tax levy money along with fees and sale of lots for the maintenance of Township cemetery. The Fire and Rescue Operations Fund receives property tax money and grants to pay for fire protection and emergency medical services.

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

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

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.

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 may appropriate.

The appropriation resolution 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 department 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 Fiscal Officer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Township.

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 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.

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 were \$10,619.

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

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 has no restricted assets.

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 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.

L. 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. The Township had no such transactions in 2005.

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 had restricted net assets for certain capital projects and special revenue funds.

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

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. 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

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, Gasoline Tax Fund, Road and Bridge Fund, Cemetery Fund, and Fire and Rescue Operations Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is that outstanding year end encumbrances 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 \$511 for the General Fund and \$303 for the Gasoline Tax 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:

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;

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

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. At December 31, 2005, \$477,822 of the Township's bank balance of \$577,822 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.

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

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

Note 6 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Township. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2004, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2004 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 \$7.20 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential and Agricultural	\$ 45,060,360
Other	757,140
Tangible Property	
Personal	<u>1,508,134</u>
Total Assessed Value	<u>\$ 47,325,634</u>

Note 7 – Risk Management

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

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

Casualty Coverage

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

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

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

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

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

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

Members may withdraw on each anniversary of the date they joined OTARMA. They must provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Financial Position

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

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

<u>Casualty Coverage</u>	<u>2005</u>
Assets	\$ 30,485,638
Liabilities	<u>(12,344,576)</u>
Retained earnings	<u>\$ 18,141,062</u>

<u>Property Coverage</u>	<u>2005</u>
Assets	\$ 9,177,796
Liabilities	<u>(1,406,031)</u>
Retained earnings	<u>\$ 7,771,765</u>

The casualty coverage assets and retained earnings above include approximately \$11.6 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment.

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.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional plan. 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, members were required to contribute 8.5 percent of their annual covered salaries and the Township's contribution rate for 2005 was 13.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Township's required contributions for pension obligations to the traditional plan for the years ended December 31, 2005, 2004, and 2003 were \$14,582, \$13,921, and \$13,421 respectively. The full amount has been contributed for 2005, 2004 and 2003.

Note 9 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with the traditional plan. Health care coverage for disability recipients and primary survivor recipients is available. 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 plan

Chatham Township, Medina County
Notes to the Financial Statements
For the Year Ended December 31, 2005

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 (the latest information available), 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 which were used to fund postemployment benefits were \$3,684. 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.

Note 10 - Debt

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

Governmental Activities:	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One year
E-One Typhoon Pumper Loan Loan (Interest Rate 7.00%)	\$ 144,674	\$ -	\$ 31,257	\$ 113,417	\$ 42,105

This loan is from Farmers Savings Bank and is for the purchase of an Emergency One Typhoon Pumper Fire Truck. The original amount of the loan was \$163,850 and will be satisfied in 2007.

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

	E-One Typhoon Pumper Loan	
	Principal	Interest
2006	\$ 42,105	\$ 7,259
2007	71,312	5,006
Total	\$ 113,417	\$ 12,265

Note 11 – Contingent Liabilities/ Subsequent Events

The Township is a defendant in a lawsuit at the present time. Although management cannot presently determine the outcome of this suit, they believe the resolution of these matters will not materially adversely affect the Township's financial condition. OTARMA has contracted a legal firm to represent the Township. The firm is confident that the plaintiff does not have a viable case.

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.

At this time, the Township has been issued a matching grant of \$5,000 to contract a consultant for planning assistance to further initiate the Township's Comprehensive plan. The Township has implemented a resolution, approving the appropriation of this matching grant.

**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**

Chatham Township
Medina County
P.O. Box 99
Spencer, Ohio 44275

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 Chatham Township, Medina County, Ohio (the Township) as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements and have issued our report thereon dated March 9, 2007, wherein we noted the Township used the cash basis of accounting rather than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Township's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Township's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is more than a remote likelihood that a misstatement of the Township's financial statements that is more than inconsequential will not be prevented or detected by the Township's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

However, we noted certain matters that we have reported to management of the Township in a separate letter dated March 9, 2007.

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

Charles E. Harris and Associates, Inc.

March 9, 2007

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit report, as of December 31, 2004 and 2003 reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

CHATHAM TOWNSHIP

MEDINA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 3, 2007**