

**SWAN TOWNSHIP**

Vinton County

Regular Audit

January 1, 2004 through December 31, 2005

Fiscal Years Audited Under GAGAS: 2004 - 2005

**BALESTRA, HARR & SCHERER, CPAs, INC.**

**CERTIFIED PUBLIC ACCOUNTANTS  
528 SOUTH WEST STREET, P.O. Box 687  
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**Auditor of State  
Betty Montgomery**

Board of Trustees  
Swan Township  
23290 Locust Grove Road  
Creola, Ohio 45622

We have reviewed the *Independent Auditor's Report* of Swan Township, Vinton County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2004 through December 31, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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. Swan Township, Vinton County is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY  
Auditor of State

June 12, 2006

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**SWAN TOWNSHIP  
VINTON COUNTY**

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Independent Auditor's Report**

Board of Trustees  
Swan Township  
23290 Locust Grove Road  
Creola, Ohio 45622

We have audited the accompanying financial statements of the Swan Township, Vinton County, (the Township) as of and for the years ended December 31, 2005 and December 31, 2004. These financial statements are the responsibility of the Government'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 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. We believe our audit provides a reasonable basis for our opinion.

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

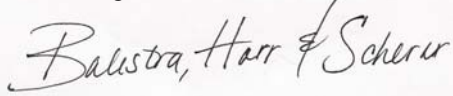
Revisions to GAAP require the Township to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and December 31, 2004. Instead of the funds accompanying financial statements presented for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Township does not follow GAAP, generally accepted auditing standards require 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. Since the Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts are materially misstated under 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 paragraph, the financial statements referred to above for the years ended December 31, 2005 and 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Government's combined funds as of December 31, 2005 or December 31, 2004, or their changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of The Swan Township, Vinton County, as of December 31, 2005 and December 31, 2004, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 2.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion & Analysis for the years ended December 31, 2005 and 2004. The Township has not presented Management's Discussion & 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2006, on our consideration of the Government'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.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

May 26, 2006

**SWAN TOWNSHIP  
VINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Local Taxes	\$32,791	\$8,379	\$41,170
Intergovernmental	7,542	88,697	96,239
Earnings on Investments	190	87	277
Other Revenue	171	48	219
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	40,694	97,211	137,905
	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>			
Current:			
General Government	43,557	0	43,557
Public Safety	172	3,771	3,943
Public Works	0	136,730	136,730
Health	0	3,501	3,501
Capital Outlay	0	1,249	1,249
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	43,729	145,251	188,980
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(3,035)	(48,040)	(51,075)
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(3,035)	(48,040)	(51,075)
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	6,198	65,952	72,150
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b>\$3,163</b>	<b>\$17,912</b>	<b>\$21,075</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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



**SWAN TOWNSHIP  
VINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Local Taxes	\$31,768	\$8,446	\$40,214
Intergovernmental	8,842	149,635	158,477
Earnings on Investments	245	112	357
Other Revenue	262	48	310
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	41,117	158,241	199,358
	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>			
Current:			
General Government	39,235	0	39,235
Public Safety	1,936	5,924	7,860
Public Works	0	90,307	90,307
Health	340	5,048	5,388
Debt Service:			
Redemption of Principal	0	12,935	12,935
Interest and Fiscal Charges	0	789	789
Capital Outlay	0	12,977	12,977
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	41,511	127,980	169,491
	<hr/>	<hr/>	<hr/>
Total Cash Receipts Over/(Under) Cash Disbursements	(394)	30,261	29,867
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	6,592	35,691	42,283
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b>\$6,198</b>	<b>\$65,952</b>	<b>\$72,150</b>
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004**

**NOTE 1 – REPORTING ENTITY**

Swan Township, Vinton County, Ohio (the Township), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly elected three-member Board of Trustees. The Township also has an elected Township Clerk/Treasurer.

The reporting entity is comprised of the primary government.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Township. The Township provides general government services, maintenance of Township roads and bridges, and cemetery maintenance. The Township contracts with the Village of McArthur Fire Department to provide fire and emergency services.

B. Component Units

Component units are legally separate organizations for which the Township is financially accountable. The Township is financially accountable for an organization if the Township appoints a voting majority of the organization's governing board and (1) the Township is able to significantly influence the programs or services performed or provided by the organization; or (2) the Township is legally entitled to or can otherwise access the organization's resources; the Township is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Township is obligated for the debt of the organization. The Township is also financially accountable for any organizations that are fiscally dependent on the Township in that the Township approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Township, are accessible to the Township and are significant in amount to the Township.

Based on this criteria, 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**

A. Basis of Presentation

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

**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

**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 categorized as governmental.

**Governmental Funds**

The Township classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Township's governmental funds are the General Fund and Special Revenue funds. Special Revenue Funds are used to account for proceeds for specific sources (other than from trusts or capital projects) that are restricted to expenditure for specific purposes. The General Fund and significant special revenue funds are described below.

**1. General 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.

**2. Gasoline Tax Special Revenue Fund**

The Gasoline Tax Fund receives state fuel excise taxes to pay for constructing, maintaining, and repairing Township Roads.

**3. Fire District Special Revenue Fund**

The Special Levy – Fire Fund receives property tax monies for providing fire protection within the Township.

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

**C. Basis of Accounting**

The Township's financial statements are prepared using the 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.

**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

The appropriations 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 fund, function, and object level for all funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Township Fiscal Officer.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources.

The Ohio Revised Code requires to the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**E. Cash**

To improve cash management, cash received by the Township is pooled and invested. Individual fund integrity is maintained through Township records.

Interest earnings are allocated to Township funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$190 and \$87 was credited to other Township funds. For 2004, Interest receipts credited to the General Fund was \$245 and \$112 was credited to other Township funds.

**F. Inventory and Prepaid Items**

The Township reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**G. Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**H. 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.

**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)**

I. 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.

J. 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.

See Note 10 for a summary of the Township's debt activities for 2005 and 2004.

**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. There are no differences between the budgetary basis and the cash basis in as much as the Township cancels outstanding year end encumbrances. Budgetary activity for the years ending December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 42,589	\$ 40,694	\$ (1,895)
Special Revenue	97,211	97,211	-
Total	\$ 139,800	\$ 137,905	\$ (1,895)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 44,629	\$ 43,729	\$ 900
Special Revenue	155,107	145,251	9,856
Total	\$ 199,736	\$ 188,980	\$ 10,756

**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**NOTE 4 – BUDGETARY BASIS OF ACCOUNTING (Continued)**

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 41,078	\$ 41,117	\$ 39
Special Revenue	221,004	158,241	(62,763)
Total	\$ 262,082	\$ 199,358	\$ (62,724)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 42,029	\$ 41,511	\$ 518
Special Revenue	138,831	127,980	10,851
Total	\$ 180,860	\$ 169,491	\$ 11,369

**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;

**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**NOTE 5 – DEPOSITS AND INVESTMENTS (Continued)**

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

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

Deposits

At December 31, 2005 the Bank Balance of the Township's Deposits was \$34,938 and the carrying value was \$21,075. At December 31, 2004 the Bank Balance of the Township's Deposits was \$91,835 and the carrying value was \$72,150. The entire amount of the Township's deposits (bank balances) for 2005 and 2004 were covered by FDIC insurance and were not subject to custodial credit risk. 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.

**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.

**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**NOTE 6 – PROPERTY TAXES (Continued)**

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The 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	\$ 9,125,945
Public Utility Property	
Real	8,060
Personal Improvement	1,521,130
Tangible Personal Property	146,750
<u>Total Assessed Value</u>	<u>\$10,801,885</u>

**NOTE 7 – RISK MANAGEMENT**

**Risk Pool Membership**

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 governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence, including loss adjustments expense. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.



**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**7. RISK MANAGEMENT (Continued)**

**Risk Pool Membership (Continued)**

Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000 up to \$500,000,000 per occurrence. APEEP's Guarantee Fund Pays losses and loss adjustment expenses exceeding operating contributions.

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.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and report the following assets, liabilities and retained earnings at December 31, 2004 and 2003: Most recent information available:

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$30,687,203	\$27,792,223
Liabilities	<u>(13,640,962)</u>	<u>(11,791,300)</u>
Retained earnings	<u>\$17,046,241</u>	<u>\$16,000,923</u>
<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$7,799,073	\$6,791,060
Liabilities	<u>(753,906)</u>	<u>(750,956)</u>
Retained earnings	<u>\$7,045,167</u>	<u>\$6,040,104</u>

**NOTE 8 – DEFINED BENEFIT PENSION PLAN**

Ohio Public Employees Retirement System

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

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

**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)**

Ohio Public Employees Retirement System (Continued)

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 4321 5-4642 or by calling (614) 222-6701 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Township's contribution rate for pension benefits for 2005 was 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 \$8,080, \$6,407, and \$5,596, respectively. The full amount has been contributed for 2005, 2004, and 2003.

**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 2005 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care.

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

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

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$259,300. 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.

**SWAN TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004  
(Continued)**

**NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)**

Ohio Public Employees Retirement System (Continued)

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

**NOTE 10 – DEBT**

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

	<u>Interest Rate</u>	<u>Balance December 31, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance December 31, 2004</u>	<u>Due Within One Year</u>
Tractor Loan	6.00%	\$ 4,281	\$ -	\$ (4,281)	\$ -	\$ -
Truck Loan	6.85%	8,654	-	(8,654)	-	-
Total		<u>\$ 12,935</u>	<u>\$ -</u>	<u>\$ (12,935)</u>	<u>\$ -</u>	<u>\$ -</u>

The truck loan was issued in 2000 to finance the purchase of a truck to be used for Township road maintenance. The loan is collateralized by the truck.

The tractor loan was issued in 1999 to finance the purchase of a tractor, cab and bucket to be used for Township road maintenance. The loan is collateralized by the tractor, cab and bucket.

There was no debt activity to disclose in 2005.

**BALESTRA, HARR & SCHERER, CPAs, INC.**

528 South West Street, P.O. Box 687  
Piketon, Ohio 45661

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Member American Institute of Certified Public Accountants  
Accountants

Ohio Society of Certified Public

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit Performed in Accordance with *Government Auditing Standards***

Board of Trustees  
Swan Township  
23290 Locust Grove Road  
Creola, Ohio 45622

To the Board of Trustees:

We have audited the financial statements of the Swan Township, Vinton County, Ohio (the Township), as of and for the years ended December 31, 2005 and 2004 and have issued our report thereon dated May 26, 2006, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

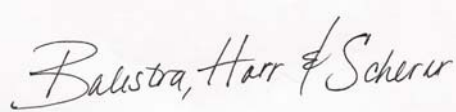
In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

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

Swan Township  
Vinton County  
Report on Internal Control Over Financial  
Reporting and on Compliance and Other Matters Required by  
*Government Auditing Standards*  
Page 2

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

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

May 26, 2006

**SWAN TOWNSHIP  
VINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
YEARS END DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2003-001	Ohio Revised Code Section 5705.41 (b) state that no subdivision is to expend money unless it has been appropriated	Yes	
2003-002	Ohio Revised Code Section 5705.41(d) citation for prior certification of funds.	Yes	
2003-003	Reportable Condition – Estimated Revenues did not agree to UAN system.	Yes	



**Auditor of State  
Betty Montgomery**

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Columbus, Ohio 43216-1140

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800-282-0370

Facsimile 614-466-4490

**SWAN TOWNSHIP**

**VINTON 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  
JUNE 22, 2006**