



**Auditor of State
Betty Montgomery**

NELSON TOWNSHIP
PORTAGE COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	5
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Nonexpendable Trust Fund - For the Year Ended December 31, 2005.....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2004.....	7
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – Nonexpendable Trust Fund - For the Year Ended December 31, 2004.....	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings.....	19
Schedule of Prior Audit Findings.....	20

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

Nelson Township
Portage County
9231 State Route 305
Garrettsville, Ohio 44231

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS 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. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

September 8, 2006

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Nelson Township
Portage County
9231 State Route 305
Garrettsville, Ohio 44231

To the Board of Trustees:

We have audited the accompanying financial statements of Nelson Township, Portage County, (the Township) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Township 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 (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2004 and 2005. Instead of the combined funds the accompanying financial statements present 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 requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, 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 Township as of December 31, 2005 and 2004, or its 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 and reserves for encumbrances of Nelson Township, Portage County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Betty Montgomery
Auditor of State

September 8, 2006

**NELSON TOWNSHIP
PORTAGE 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>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Local Taxes	\$56,589	\$192,641	\$11,370	\$0	\$260,600
Intergovernmental	102,582	92,052			194,634
Licenses, Permits, and Fees	9,782	1,785			11,567
Earnings on Investments	3,523	1,833			5,356
Miscellaneous	3,316	2,781			6,097
	<u>175,792</u>	<u>291,092</u>	<u>11,370</u>	<u>0</u>	<u>478,254</u>
Total Cash Receipts					
Cash Disbursements:					
Current:					
General Government	171,354	3,845			175,199
Public Works		318,533			318,533
Health		5,024			5,024
Debt Service:					
Redemption of Principal			7,000		7,000
Interest and Fiscal Charges			17,144		17,144
Capital Outlay	2,381	17,644		15,798	35,823
	<u>173,735</u>	<u>345,046</u>	<u>24,144</u>	<u>15,798</u>	<u>558,723</u>
Total Cash Disbursements					
Total Receipts Over/(Under) Disbursements	<u>2,057</u>	<u>(53,954)</u>	<u>(12,774)</u>	<u>(15,798)</u>	<u>(80,469)</u>
Other Financing Receipts and (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Bonds				11,243	11,243
	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,243</u>	<u>11,243</u>
Total Other Financing Receipts/(Disbursements)					
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	2,057	(53,954)	(12,774)	(4,555)	(69,226)
Fund Cash Balances, January 1	<u>(6,151)</u>	<u>201,690</u>	<u>14,630</u>	<u>4,556</u>	<u>214,725</u>
Fund Cash Balances, December 31	<u>(\$4,094)</u>	<u>\$147,736</u>	<u>\$1,856</u>	<u>\$1</u>	<u>\$145,499</u>
Reserve for Encumbrances, December 31	<u>\$1,142</u>	<u>\$14,499</u>	<u>\$0</u>	<u>\$2,220</u>	<u>\$17,861</u>

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

**NELSON TOWNSHIP
PORTAGE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Nonexpendable Trust
Operating Cash Receipts:	
Earnings on Investments	\$16
Total Operating Cash Receipts	16
Operating Cash Disbursements:	
Miscellaneous	
Total Operating Cash Disbursements	0
Total Receipts Over/(Under) Disbursements	16
Excess of Cash Receipts Over/(Under) Cash Disbursements	16
Fund Cash Balances, January 1	644
Fund Cash Balances, December 31	\$660

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

**NELSON TOWNSHIP
PORTAGE 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>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Local Taxes	\$39,866	\$195,105	\$26,000	\$0	\$260,971
Intergovernmental	92,536	82,547			175,083
Licenses, Permits, and Fees	11,395	3,236			14,631
Earnings on Investments	3,155	1,722			4,877
Miscellaneous	2,237	791			3,028
	<u>149,189</u>	<u>283,401</u>	<u>26,000</u>	<u>0</u>	<u>458,590</u>
Cash Disbursements:					
Current:					
General Government	175,542	13,725			189,267
Public Works		224,158			224,158
Health		6,322			6,322
Debt Service:					
Redemption of Principal			5,983		5,983
Interest and Fiscal Charges			5,558		5,558
Capital Outlay	6,386	10,207		372,822	389,415
	<u>181,928</u>	<u>254,412</u>	<u>11,541</u>	<u>372,822</u>	<u>820,703</u>
Total Receipts Over/(Under) Disbursements	<u>(32,739)</u>	<u>28,989</u>	<u>14,459</u>	<u>(372,822)</u>	<u>(362,113)</u>
Other Financing Receipts and (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Bonds				365,802	365,802
Transfers-In				14,533	14,533
Advances-In	6,655			6,655	13,310
Transfers-Out	(14,533)				(14,533)
Advances-Out	(6,655)			(6,655)	(13,310)
Other Sources	1,556	157		1,300	3,013
Other Uses				(7,752)	(7,752)
	<u>(12,977)</u>	<u>157</u>	<u>0</u>	<u>373,883</u>	<u>361,063</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(45,716)	29,146	14,459	1,061	(1,050)
Fund Cash Balances, January 1	39,565	172,544	171	3,495	215,775
Fund Cash Balances, December 31	<u>(\$6,151)</u>	<u>\$201,690</u>	<u>\$14,630</u>	<u>\$4,556</u>	<u>\$214,725</u>
Reserve for Encumbrances, December 31	<u>\$3,407</u>	<u>\$13,521</u>	<u>\$0</u>	<u>\$16,654</u>	<u>\$33,582</u>

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

**NELSON TOWNSHIP
PORTAGE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Nonexpendable Trust
Operating Cash Receipts:	
Earnings on Investments	\$9
Total Operating Cash Receipts	9
Operating Cash Disbursements:	
Miscellaneous	
Total Operating Cash Disbursements	0
Total Receipts Over/(Under) Disbursements	9
Excess of Cash Receipts Over/(Under) Cash Disbursements	9
Fund Cash Balances, January 1	635
Fund Cash Balances, December 31	\$644

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

**NELSON TOWNSHIP
PORTAGE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Nelson Township, Portage County, (the Township) is a body corporate and politic 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 provides road and bridge maintenance and cemetery maintenance.

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

Jointly Governed Organizations

The Township provides fire protection to its residents through the Garrettsville-Freedom-Nelson Joint Fire District which is directed by an appointed three-member Board of Trustees. One Board Member is appointed by each political subdivision within the District. Those subdivisions are the Village of Garrettsville, Freedom Township and Nelson Township. The District is solely funded by voter approved tax levies. There is no funding received from District Members.

The Township provides ambulance service to its residents through the Community Emergency Medical Service District which is directed by an appointed three-member Board of Trustees. One Board Member is appointed by each political subdivision within the district. Those subdivisions are the Village of Garrettsville, Freedom Township and Nelson Township. The District is solely funded by voter approved tax levies. There is no funding received from District Members.

B. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Township values certificates of deposit at cost. Money market mutual funds are recorded at share values the mutual funds report.

**NELSON TOWNSHIP
PORTAGE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Funds:

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

Gasoline Tax Fund - This fund receives gasoline tax money to pay for constructing, maintaining, and repairing Township roads.

3. Debt Service Funds

This fund accounts for resources the Township accumulates to pay bond and note debt.

4. Capital Project Funds

This fund accounts for receipts restricted to acquiring or constructing major capital projects. The Township had the following significant capital project fund:

New Service Building – This fund will account for the construction of the new service building for the Township.

5. Fiduciary Funds (Trust Fund)

This fund is used to account for resources restricted by a legally binding trust agreement. The Township had the following significant fiduciary fund:

Cemetery Bequest Fund – This fund must maintain the corpus of the trust, but the interest earned may be spent on cemetery maintenance.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

**NELSON TOWNSHIP
PORTAGE COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

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

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Township maintains a cash and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	2005	2004
Demand deposits	\$2,019	\$11,568
Certificates of deposit	500	500
Money Market Account	143,640	203,301
 Total deposits and investments	 \$146,159	 \$215,369

Deposits: Deposits are insured by the Federal Depository Insurance Corporation up to \$100,000; however, the remaining balance is collateralized under Ohio law with securities held by the financial institutions agent but not in the Township's name. In addition, the depository agreement is in writing but has not been approved by the board of directors or loan committee of the financial institution; therefore all monies over \$100,000 in the financial institution are not collateralized under federal law.

**NELSON TOWNSHIP
PORTAGE COUNTY**

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

2. EQUITY IN POOLED CASH AND INVESTMENTS – (Continued)

Investments: Money Market funds are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

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	\$172,408	\$175,792	\$3,384
Special Revenue	472,598	291,092	(181,506)
Debt Service	26,000	11,370	(14,630)
Capital Projects	8,965	11,243	2,278
Fiduciary	161	16	(145)
Total	\$680,132	\$489,513	(\$190,619)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$116,189	\$174,877	(\$58,688)
Special Revenue	271,632	359,545	(87,913)
Debt Service	26,000	24,144	1,856
Capital Projects	8,965	18,018	(9,053)
Fiduciary	0	0	0
Total	\$422,786	\$576,584	(\$153,798)

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$175,940	\$150,745	(\$25,195)
Special Revenue	403,128	283,558	(119,570)
Debt Service	26,171	26,000	(171)
Capital Projects	383,495	381,635	(1,860)
Fiduciary	162	9	(153)
Total	\$988,896	\$841,947	(\$146,949)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$204,777	\$199,868	\$4,909
Special Revenue	339,750	267,933	71,817
Debt Service	26,000	11,541	14,459
Capital Projects	383,495	397,228	(13,733)
Fiduciary	0	0	0
Total	\$954,022	\$876,570	\$77,452

**NELSON TOWNSHIP
PORTAGE COUNTY**

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

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Township.

5. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$387,000	4.5%

Through the United States Department of Agriculture (USDA), the Township issued general obligation bonds in the amount of \$400,000 to finance the construction of a New Service Building. The Township's taxing authority collateralized the bonds. The monies are drawn down from the USDA as the project is completed in stages. The Township received \$13,135 during 2003, \$365,802 during 2004, and \$11,243 during 2005. The amount received for calendar 2005 and 2004 are presented on the financial statements. As the project moves forward the amount of the issuance of bonds increases with respect to the amount of draw downs made by the Township. The remaining amount to be drawn down during 2006 is \$9,820.

Amortization of the above debt, including interest, is scheduled as follows:

	General Obligation Bonds
Year ending December 31:	
2006	\$ 24,415
2007	24,100
2008	24,785
2009	24,425
2010	24,065
2011 – 2015	122,160
2016 – 2020	123,460
2021 – 2025	123,430
2026 – 2030	124,250
2031 – 2033	75,390
Total	\$690,480

**NELSON TOWNSHIP
PORTAGE COUNTY**

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

6. RETIREMENT SYSTEMS

All Township employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2005.

7. RISK MANAGEMENT

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

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

Casualty Coverage

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

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

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. 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 \$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.

**NELSON TOWNSHIP
PORTAGE COUNTY**

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

7. RISK MANAGEMENT – (Continued)

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 and 2004.

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	<u>(12,344,576)</u>	<u>(11,086,379)</u>
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	<u>(1,406,031)</u>	<u>(543,176)</u>
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

The Casualty Coverage assets and retained earnings above include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment. The Township's share of these unpaid claims is approximately \$21,370.

This page intentionally left blank.



Auditor of State Betty Montgomery

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

Nelson Township
Portage County
9231 State Route 305
Garrettsville, Ohio 44231

To the Board of Trustees:

We have audited the financial statements of Nelson Township (the Township) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 8, 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 also noted that the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as items 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Township's management dated September 8, 2006, we reported other matters involving internal control over financial reporting which we did not deem as reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Township's management dated September 8, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

September 8, 2006

**NELSON TOWNSHIP
PORTAGE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2005-001

Reportable Condition

Monthly Reconciliations not Performed:

All bank accounts should be reconciled to the Township's financial accounting system on a monthly basis to help ensure completeness and accuracy over transactions and the accuracy of checks clearing the bank.

The Township performed monthly cash reconciliations for the audit period, however, the reconciliations contained other adjusting factors which were at times not explained. In addition, the Board of Trustees do not monitor or review reconciliations during their regular meetings. Due to the size and complexity of the Township, segregation of duties is limited; therefore it's very important for the Trustees to monitor the reconciling activities of the Fiscal Officer on a monthly basis.

The prior two consecutive audits noted the same exceptions.

The Trustees contracted with a CPA firm to properly reconcile the Township.

We recommend that cash reconciliations be performed monthly by the Fiscal Officer through the UAN system. We also recommend that monthly reconciliations be reviewed and approved by at least one Trustee. The Trustee appointed to review monthly cash reconciliations should sign off on the reconciliation as evidence of the review. This review could also be performed at a regular board meeting and be documented in the minutes. The Fiscal Officer should document and maintain any discrepancies noted or adjustments made in the course of performing the monthly reconciliation.

Implementation of the recommendation may help strengthen proper accountability over financial reporting.

Officials' Response:

The Fiscal Officer has been reconciling the bank accounts on a monthly basis since January 2005 using the UAN System. The reconciliation reports are presented to the Trustees for review. After each Trustee reviews the report they sign the report to as an acknowledgement of review. From this time forward this action will be recorded in the minutes of the Board meetings.

NELSON TOWNSHIP
PORTAGE COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Nonperformance of Cash Reconciliations	No	Not Corrected – Reissued as Finding Number 2005-001
2003-002	Budgetary Requirements	No	Not Corrected – Reissued in the Management Letter



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

NELSON TOWNSHIP

PORTAGE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 9, 2006**