

Twinsburg Township

Financial Condition

As of

December 31, 2006

Together with Auditor's Report



Mary Taylor, CPA

Auditor of State

Board of Trustees
Twinsburg Township
9833 Ravenna Road
Twinsburg, Ohio 44087

We have reviewed the *Independent Auditor's Report* of Twinsburg Township, Summit County, prepared by Kevin L. Penn, Inc., for the audit period January 1, 2006 through December 31, 2006. 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. Twinsburg Township is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 11, 2008

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TWINSBURG TOWNSHIP

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Independent Auditor's Report

To the Board of Trustee
Board of Twinsburg Township
Summit County, Ohio

I have audited the accompanying financial statements of Twinsburg Township as December 31, 2006 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

As discussed 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. Although I 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, I presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2006. Instead of the combined funds the accompanying financial statements present for 2006, the revision requires presenting entity wide statements and also to present larger (i.e. major) funds separately for 2006. 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 its financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. My opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In my opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above 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, 2006, or its changes in financial position for the year then ended.

Also, in my opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Twinsburg Township as of December 31, 2006, and its combined cash receipts and disbursements for the year then ended, on the basis of accounting described in Note 1.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the year ended December 31, 2006. 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, I have also issued my report dated March 31, 2008, on my consideration of the Township's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of my testing of internal controls over financial reporting and compliance and the results of 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 Governmental Auditing Standards. You should read it in conjunction with this report in assessing the results of my audit.

Kevin L. Penn, Inc.

March 31, 2008

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Twinsburg Township
Summit County
Combined Statement of Cash Receipts,
Disbursements
and Changes in Fund Cash Balances
All Governmental and Fiduciary Fund Types
For the Year Ended December 31, 2006

| | Governmental Fund Types | | | Fiduciary Funds | Totals |
|---|-------------------------|--------------------|---------------------|--------------------|----------------------|
| | General | Special Revenue | Capital Projects | | (Memorandum Only) |
| Cash Receipts: | | | | | |
| Local Taxes | \$ 325,761 | \$ 1,365,770 | \$ - | \$ - | \$ 1,691,531 |
| Intergovernmental | 2,089,783 | 213,887 | 201,135 | | 2,504,805 |
| Licenses, Permits, and Fees | 15 | 25,729 | | | 25,744 |
| Fines, Forfeitures, and Penalties | 10,407 | | | | 10,407 |
| Earnings on Investments | 186,834 | 4,936 | | 105 | 191,875 |
| Other Revenue | 309,519 | 5,260 | | | 314,779 |
| Total Cash Receipts | 2,922,319 | 1,615,582 | 201,135 | 105 | 4,739,141 |
| Cash Disbursements: | | | | | |
| Current: | | | | | |
| General Government | 1,047,348 | 115,955 | | | 1,163,303 |
| Public Safety | | 1,296,896 | | | 1,296,896 |
| Public Works | 28,297 | 259,659 | 1,247,324 | | 1,535,280 |
| Conservation - Recreation | 24,724 | | | | 24,724 |
| Capital Outlay | 449,390 | | | | 449,390 |
| Total Cash Disbursements | 1,549,759 | 1,672,510 | 1,247,324 | - | 4,469,593 |
| Total Receipts Over/(Under) Disbursements | 1,372,560 | (56,928) | (1,046,189) | 105 | 269,548 |
| Other Financing Receipts/(Disbursements) | | | | | |
| Transfers-In | | 214,220 | 479,500 | | 693,720 |
| Transfers-Out | (693,720) | | | | (693,720) |
| Other Financing Sources | 3,112 | | | | 3,112 |
| Other Financing Uses | (173) | | | | (173) |
| Total Other Financing Receipts/(Disbursements) | (690,781) | 214,220 | 479,500 | - | 2,939 |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | 681,779 | 157,292 | (566,689) | 105 | 272,487 |
| Fund Cash Balance - January 1, 2006 | 1,462,834 | 1,403,756 | 808,535 | 11,405 | 3,686,530 |
| Fund Cash Balance - December 31, 2006 | \$ 2,144,613 | \$ 1,561,048 | \$ 241,846 | \$ 11,510 | \$ 3,959,017 |
| Reserves for Encumbrances, December 31, 2006 | \$ 276,829 | \$ 11,012 | \$ 166,846 | \$ - | \$ 454,687 |

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

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 - DESCRIPTION OF THE ENTITY AND BASIS OF PRESENTATION
(As Required by Various Statutes)

A. DESCRIPTION OF THE ENTITY

The Twinsburg Township, (the Township) is a body politic and corporate established for the purpose of exercising 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, recycling, protection and emergency medical services. The Township contracts with the City of Twinsburg to provide fire protection and emergency medical services. The Township also contracts with the Summit County Sheriff's Department for police protection.

B. BASIS OF ACCOUNTING:

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosures of material matters, as prescribed or permitted by the Auditor of State.

C. CASH AND 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 disbursements, respectively.

Investments in repurchase agreements are valued at cost.

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:

Governmental Fund Types:

General Fund. This fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 - DESCRIPTION OF THE ENTITY AND BASIS OF PRESENTATION
(As Required by Various Statutes)

D. FUND ACCOUNTING (continued)

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

- Police Levy Fund – This fund receives money from a special tax levy that is used to pay for the cost of police protection provided by the Summit County Sheriff’s Department.
- Fire/Emergency Medical Services Fund – This fund receives money from a special tax levy that is used to pay for the cost of fire protection and emergency medical services provided by the City of Twinsburg.

Capital Projects Funds. These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township has the following significant Capital Project Funds:

- Hadden Road Issue II Fund - This fund is used to account for State Issue II monies received and disbursed relative to the general improvement of Hadden Road.
- Herrick Road Issue II Fund - This fund is used to account for State Issue II monies received and disbursed relative to the general improvement of

Fiduciary Fund (Agency Fund). This fund is used to account for funds for which the Township is acting in an agency capacity. The Township has the following Fiduciary Fund:

- Local Public Works Fund – This fund received revenue from the City of Twinsburg in connection with a road constriction project.

E. BUDGETARY PROCESS

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

APPROPRIATIONS

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

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 1 - DESCRIPTION OF THE ENTITY AND BASIS OF PRESENTATION
(As Required by Various Statutes)

E. BUDGETARY PROCESS(continued)

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 reappropriated.

A summary of the 2006 budgetary activity appears in Note 4.

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.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded for these fixed assets.

G. UNPAID VACATION AND SICK LEAVE

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

H. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Amounts in the "Totals (Memorandum Only)" columns of the financial statements represent a summation of the financial statements line items of the fund types and account groups. These amounts are presented for analytical purposes only. This data is not comparable to a consolidation. Interfund type eliminations have not been made in the aggregation of this data.

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS:

In 2006, the Township adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This new standard revised the existing requirements regarding disclosure of custodial credit risk and establishes requirements for disclosures regarding credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Adoption of GASB Statement No. 40 had no effect on net assets and change in net assets in the prior or current year.

A. **Deposits**

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

Active deposits are public deposits necessary to meet demands on the treasury. Such monies must be maintained either as cash in the Township's 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 two 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.

At year-end, the carrying amount of the Township's deposits was \$3,959,017 and the bank balance was \$4,176,810.

Custodial Credit Risk

Custodial Credit Risk is the risk that, in the event of a bank failure, the Township's deposits may not be returned. The Township's policy is to place deposits with major local banks approved by the Board. Multiple financial institution collateral pools that insure public deposits must maintain collateral in excess of 105 percent of deposits, as permitted by Chapter 135 of the Ohio Revised Code. As of year-end, deposits totaling \$100,000 were covered by Federal Depository Insurance and deposits totaling \$4,076,810 were uninsured and collateralized with securities held by the financial institution's trust department or agent, but not in the Township's name.

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS:

B. Investments

State Statute, and Board resolutions authorize the Township to invest in obligations of the U. S. Treasury, agencies and instrumentalities, certificates of deposit, repurchase agreements, money market deposit accounts, municipal depository funds, super NOW accounts, sweep accounts, separate trading of registered interest and principal of securities, mutual funds, bonds and other obligations of this State, and the State Treasurer's investment pool. 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The Township has a formal investment policy. The objective of this policy shall be to maintain liquidity and protection of principal while earning investment interest. Safety of principal is the primary objective of the investment program. The Township follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and records all its investments at fair value.

Interest Rate Risk

As a means of limiting its exposure to fair value of losses caused by rising interest rates, the Township's investment policy requires those funds which are not operating reserve funds to be invested in investments with a maximum term of one year or the Township's operating cycle. For investments of the Township's operating reserve funds, the maximum term can be up to three years. The intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Township has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

Generally, the Township places no limit on the amount it may invest in any one insurer. However, the investment policy limits the investment of approved mutual funds to no more than 20 percent of the Township's available investment funds. The Township's deposits in financial institutions represents 100 percent of its deposits.

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS:

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. As of year-end, the Township had no exposure to foreign currency rate risk.

Reconciliation of cash and cash equivalents and investments is as follows:

| | <u>Cash and Cash</u> | <u>Equivalents * Investments</u> |
|--|----------------------|----------------------------------|
| Per Combined Statement of Cash Receipts, Disbursements And Changes in Fund Cash Balance | \$ 1,810 | \$3,957,207 |
| Repurchase Agreement | <u>3,957,207</u> | <u>(3,957,207)</u> |
| Per GASB Statement No. 3 | \$ <u>3,959,017</u> | \$ <u>0</u> |

* Includes Petty Cash.

NOTE 3 - PENSION PLAN

Ohio Public Employees Retirement System

All Township full-time employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans, as described below:

- The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan;
- The Member-Directed Plan (MD) - 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 member and (vested) employer contributions plus any investment earnings;

Ohio Public Employees Retirement System

- The Combined Plan (CO) - a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

PERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Township to establish and amend benefits is provided by State statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 3 - PENSION PLAN

The Ohio Revised Code provides statutory Township for member and employer contributions. For 2004, member and employer contribution rates were consistent across all three plans (TP, MD, and CO). Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The employer pension contribution rate for the Township was 13.55 percent of covered payroll. The Township's required contributions to OPERS for the years ended December 31, 2006, 2005, and 2004 were \$38,548, \$34,811, and \$31,493 respectively.

NOTE 4 - POST-EMPLOYMENT BENEFITS

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. Health care coverage for disability recipients and primary survivor recipients is available with both the Traditional and the Combined Plan; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care. The Ohio Revised Code provides statutory Township for employer contributions. The 2006 employer contribution rate was 13.55 percent from January 1, 2006 through June 30, 2006 and 13.70 percent from July 1, 2006 through December 31, 2006 of covered payroll, 4 percent from January 1, 2006 through June 30, 2006 and 4.5 percent from July 1, 2006 through December 31, 2006 was the portion that was used to fund health care for 2006.

Benefits are advance-funded using the entry age normal actuarial cost method of valuation. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care costs were assumed to increase at the projected wage inflation rate plus an additional factor ranging from .50 percent to 6 percent for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase at 4 percent (the projected wage inflation rate).

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, not to exceed a 12 percent corridor.

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 4 - POST-EMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

At December 31, 2005, the number of active contributing participants in the Traditional Pension and Combined Plans totaled 369,214. The number of active contributing participants for both plans used in the December 31, 2005, actuarial valuation was 358,804. The actual contribution and the actuarially required contribution amounts are the same. OPERS' net assets available for payment of benefits at December 31, 2005 (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

NOTE 5 – BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2006 follows:

Budgeted vs. Actual Receipts

| Fund Type: | Budgeted Receipts | Actual Receipts | Variance |
|------------------|----------------------|--------------------|---------------|
| General | \$ 3,887,738 | \$ 2,925,327 | \$ (962,411) |
| Special Revenue | 3,098,568 | 1,829,203 | (1,269,365) |
| Capital Projects | 2,006,371 | 680,635 | (1,325,736) |
| Fiduciary | 21,405 | 105 | (21,300) |
| Total | \$ 9,014,082 | \$ 5,435,270 | \$(3,578,812) |

Budgeted vs Actual Budgetary Basis Expenditures

| Fund Type: | Appropriation Township | Budgetary Expenditures | Variance |
|------------------|---------------------------|---------------------------|-------------|
| General | \$ 3,390,644 | \$ 2,457,481 | \$ 933,163 |
| Special Revenue | 1,906,214 | 1,683,522 | 222,692 |
| Capital Projects | 2,006,371 | 1,414,170 | 592,201 |
| Fiduciary | 10,000 | - | 10,000 |
| Total | \$ 7,313,229 | \$ 5,555,173 | \$1,758,056 |

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 6 - PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31.

The second half payment is due the following June 20. Public utilities are also taxed on personal and real property located within the Township.

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.

NOTE 7 – RISK MANAGEMENT

Commercial Insurance

The Township has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

The Township also provides health insurance and dental and vision coverage to full-time employees through a private carrier.

Risk Pool Membership

The Township belongs to the Ohio Township Association Risk Management Township (OTARMA), a risk-sharing pool available to Ohio Township. 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 claim, 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.

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 7 – RISK MANAGEMENT (continued)

Casualty Coverage

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 2006, 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.

Beginning in 2006, 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 2006 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 years.

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, 2006 and 2005.

| | | |
|-------------------|---------------------|---------------------|
| Casualty Coverage | 2005 | 2006 |
| Assets | \$30,485,638 | \$32,031,312 |
| Liabilities | <u>(12,344,576)</u> | <u>(11,443,952)</u> |
| Retained Earnings | <u>\$18,141,062</u> | <u>\$20,587,360</u> |
| Property Coverage | 2005 | 2006 |
| Assets | \$ 9,177,796 | \$10,010,963 |
| Liabilities | <u>(1,406,031)</u> | <u>(676,709)</u> |
| Retained Earnings | <u>\$ 7,771,765</u> | <u>\$ 9,334,254</u> |

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member townships in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$64,652. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 7 – RISK MANAGEMENT (continued)

Based on discussions with OTARMA the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detail below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

Township Contributions to OTARMA:

2004 - \$13,076
2005 - \$19,132
2006 - \$32,326

After completing one year of membership, 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 contributions, minus the subsequent year’s contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all 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.

NOTE 8 – LEASE

In 2005 the Township entered into a cooperative agreement with the Summit County Port Authority (the “Authority”), pursuant to available Township programs. This agreement included multiple documents approved and executed by the Township and the Authority. These documents can be found in the Township’s Transcript of Proceedings dated September 27, 2005.

In conjunction with this agreement, the Port Authority issued bonds for the purpose of the purchase and renovation of the building located at 7996 Darrow Road in the Township for use by the Township as an Administrative and Service Center. The bonds issued by the Port Authority have a term of 20 years, beginning in 2005 and ending in 2025. At the completion of this term, ownership of the building will transfer from the Township to the Township.

The documents executed by the Township and the Authority include a lease agreement, specifying Township and Authority roles as lessee and lessor, respectively, during the 20 year period. In accordance with the lease agreement, the Township makes monthly lease payments to the Authority’s trustee, U.S. Bank National Association, subject to annual Township appropriations approved by the Board of Trustees. Monthly payments are due on the first day of each month.

Future lease payments are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|--------------------|
| 2007 | \$ 473,521 |
| 2008 | 474,333 |
| 2009 | 474,583 |
| 2010 | 474,271 |
| 2011 | 474,271 |
| Thereafter | <u>6,910,787</u> |
| Total | <u>\$9,281,766</u> |

TWINSBURG TOWNSHIP
SUMMIT COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006

NOTE 9 - CONTINGENT LIABILITIES

The Township is defendant in several lawsuits. Although the outcome of these suits is not presently determinable, management believes that the resolution of these matters will not materially adversely affect the Township's financial condition.

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any would not be material.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLES

For the year ended December 31, 2006, the Township has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the Township.

NOTE 11 – JOINT VENTURE

The Township participates in the Twinsburg Township – Village of Reminderville Joint Economic Development District (the District), which is a statutorily created subdivision of the State. The purpose of the District is to facilitate economic development to create or preserve jobs and employment opportunities and to improve the economic welfare of the people of the State, the County, the Village, the Township and the District. This joint venture is considered a separate reporting entity by the Township's management. Accordingly, the joint venture has not been included in these financial statements.

NOTE 12 – SUBSEQUENT EVENTS

The Township has been in the process of renegotiating the cooperative lease agreement with the Summit County Port Authority. In early 2008 the lease agreement between the Township and the Summit County Port Authority has been terminated. The Township has return to their former location at 9833 Ravenna Road.



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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by Government Auditing Standards

To the Board of Trustee
Board of Twinsburg Township
Summit County, Ohio

I have audited the financial statements of Twinsburg Township as of and for the year ended December 31, 2006, and have issued my report thereon dated March 31, 2008. I conducted my audit in accordance with generally accepted auditing standards 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. My report on the financial statements disclosed that, as described in Note 1 to the financial statements, the Township prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and budget laws of Ohio, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of control does not allow management of 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 Twinsburg Township's ability to initiate, authorize, record, process, or report financial data reliably in accordance with a comprehensive basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Twinsburg Township's financial statements that is more than inconsequential will not be prevented or detected by Twinsburg 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 Twinsburg Township's internal control.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Twinsburg Township's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain matters that I reported to management of Twinsburg Township in a separate letter dated March 31, 2008.

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

Kevin L. Penn, Inc.

March 31, 2008

Twinsburg Township
Summit County

Schedule of Findings
December 31, 2006

Finding Related to the Financial Statements
Required to be Reported in Accordance with GAGAS

There were no audit findings for the 2006 calendar year.

Twinsburg Township
Summit County

Schedule of Prior Audit Findings
December 31, 2006

2005-1

Ohio Revised Code Section 5549.21

Finding Summary:

During the 2005 calendar year, the Township purchased a Dump Truck that exceeded the \$25,000 limitation. The Township could not provide evidence to support that competitive bidding was performed, as required by R.C. 5549.21.

Fully Corrected?

Yes.

Current Status:

There were no findings pertaining to Ohio Revised Code Section 5549.21 in 2006.

2005-2

Ohio Revised Code Section 5575.01

Finding Summary:

During the 2005 calendar year, the Township entered into a contract for road repair in the amount of \$164,312, an amount in excess of \$45,000. The Township could not provide evidence to support that competitive bidding was performed. In addition, the Township entered into a construction contract in the amount of \$81,829 which also exceeded the \$45,000 limitation. Again the Township could not provide evidence to support that competitive bidding was performed.

Fully Corrected?

Yes.

Current Status:

There were no findings pertaining to Ohio Revised Code Section 5575.01 in 2006.

Twinsburg Township
Summit County

Schedule of Prior Audit Findings
December 31, 2006

2005-3

Ohio Revised Code Section 505.08

Finding Summary:

During the 2005 calendar year, the Township entered into a contract based on an emergency basis to build a Salt Shed. However, such purchase exceeded the \$50,000 limitation set forth in R.C. 505.08.

Fully Corrected?

Yes.

Current Status:

There were no findings pertaining to Ohio Revised Code Section 505.08 in 2006.

2005-4

Ohio Revised Code Section 125.04

Finding Summary:

During the 2005 calendar year, the Township purchased a Backhoe Loader for \$80,283 which exceeded the \$25,000 limitation, and indicated that the purchase was made via the Ohio Department of Administrative Services purchasing program; however, the Township could not provide evidence of properly utilizing the Ohio Department of Administrative Services purchasing program; furthermore there was no evidence supplied by the Township indicating that those same supplies or services could be purchased from another party with equivalent conditions and specifications but at a lower price.

Fully Corrected?

Yes.

Current Status:

There were no findings pertaining to Ohio Revised Code Section 125.04 in 2006.



Mary Taylor, CPA
Auditor of State

TWINSBURG TOWNSHIP

SUMMIT 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 17, 2008**