



**Auditor of State
Betty Montgomery**

**UNION TOWNSHIP
KNOX COUNTY**

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**Auditor of State
Betty Montgomery**

Union Township
Knox County
P.O. Box 731
Danville, Ohio 43014

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 Township 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.

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Betty Montgomery
Auditor of State

September 20, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Union Township
Knox County
P.O. Box 731
Danville, Ohio 43014

To the Board of Trustees:

We have audited the accompanying financial statements of Union Township, Knox County, Ohio (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, 2005 and 2004. 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.

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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 Union Township, Knox County, Ohio, 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 20, 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 20, 2006

**UNION TOWNSHIP
KNOX COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Non-Expendable Trust</u>	
Cash Receipts:				
Local Taxes	\$34,842	\$16,210	\$0	\$51,052
Intergovernmental	48,519	103,707	0	152,226
Licenses, Permits, and Fees	0	1,600	0	1,600
Earnings on Investments	317	108	1	426
Other Revenue	2,266	1,693	0	3,959
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	85,944	123,318	1	209,263
Cash Disbursements:				
Current:				
General Government	59,999	0	0	59,999
Public Works	1,733	121,782	0	123,515
Health	0	1,971	0	1,971
Debt Service:				
Redemption of Principal	3,831	0	0	3,831
Interest and Fiscal Charges	694	0	0	694
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	66,257	123,753	0	190,010
Total Receipts Over/(Under) Disbursements	19,687	(435)	1	19,253
Fund Cash Balances, January 1	11,015	33,926	544	45,485
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Fund Cash Balances, December 31	\$30,702	\$33,491	\$545	\$64,738
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Reserve for Encumbrances, December 31	\$1	\$247	\$0	\$248
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The notes to the financial statements are an integral part of this statement.

**UNION TOWNSHIP
KNOX COUNTY**

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

	<u>Governmental Fund Types</u>		<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Non Expendable Trust</u>	
Cash Receipts:				
Local Taxes	\$31,919	\$14,125	\$0	\$46,044
Intergovernmental	29,517	90,589	0	120,106
Licenses, Permits, and Fees	0	800	0	800
Earnings on Investments	301	101	1	403
Other Revenue	3,936	227	0	4,163
	<u>65,673</u>	<u>105,842</u>	<u>1</u>	<u>171,516</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	59,694	0	0	59,694
Public Works	1,174	98,731	0	99,905
Health	1,913	1,077	0	2,990
Debt Service:				
Redemption of Principal	13,345	0	0	13,345
Interest and Fiscal Charges	1,432	0	0	1,432
Capital Outlay	6,500	0	0	6,500
	<u>84,058</u>	<u>99,808</u>	<u>0</u>	<u>183,866</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	(18,385)	6,034	1	(12,350)
Fund Cash Balances, January 1	<u>29,400</u>	<u>27,892</u>	<u>543</u>	<u>57,835</u>
Fund Cash Balances, December 31	<u>\$11,015</u>	<u>\$33,926</u>	<u>\$544</u>	<u>\$45,485</u>
Reserve for Encumbrances, December 31	<u>\$1</u>	<u>\$5,566</u>	<u>\$0</u>	<u>\$5,567</u>

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

**UNION TOWNSHIP
KNOX COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Union Township, Knox County, Ohio, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance and cemetery maintenance. The Township contracts with the Eastern Knox County Joint Fire District to provide fire and emergency medical services.

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

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 had no investments at December 31, 2005 and 2004. Funds are held in a business checking account and a money market savings account.

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.

**UNION TOWNSHIP
KNOX COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Special Revenue Funds (continued)

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

3. Fiduciary Funds (Trust Fund)

These funds account for resources restricted by legally binding trust agreements and funds for which the Township is acting in an agency capacity. The Township had the following significant Fiduciary Fund:

Non-Expendable Trust Fund – The Township accounts for the Mullet Cemetery Bequest with this fund.

E. Budgetary Process

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

1. 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 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 reappropriated. The Township did not encumber all commitments required by Ohio law.

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.

**UNION TOWNSHIP
KNOX COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The Township maintains a cash pool all funds use except the non-expendable trust fund. The Ohio Revised Code prescribes allowable deposits . The carrying amount of cash at December 31 was as follows:

	2005	2004
Demand deposits	\$64,738	\$45,485

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2005 and December 31, 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$86,886	\$85,944	(\$942)
Special Revenue	97,992	123,318	25,326
Fiduciary	0	1	1
Total	\$184,878	\$209,263	\$24,385

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$96,600	\$66,258	\$30,342
Special Revenue	132,845	124,000	8,845
Fiduciary	0	0	0
Total	\$229,445	\$190,258	\$39,187

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$79,391	\$65,673	\$13,718
Special Revenue	97,605	105,842	(8,237)
Fiduciary	0	1	(1)
Total	\$176,996	\$171,516	\$5,480

**UNION TOWNSHIP
KNOX COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$113,390	\$84,059	\$29,331
Special Revenue	124,711	105,374	19,337
Fiduciary	0	0	0
Total	\$238,101	\$189,433	\$48,668

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 Notes - Backhoe	13,575	4.25%

In 1999 general obligation bonds were issued to finance the purchase of a new tractor and mower. The bonds were paid off during 2004. The 2003, general obligation notes were issued to finance the purchase of a new backhoe. The notes will be repaid in annual installments of \$4,525, including interest. These notes are fully collateralized by the Township's taxing authority.

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

	General Obligation Notes - Backhoe
Year ending December 31:	
2006	\$4,525
2007	4,525
2008	4,525
Total	\$13,575

**UNION TOWNSHIP
KNOX COUNTY**

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

6. RETIREMENT SYSTEMS

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 plan benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, members of OPERS 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.

**UNION TOWNSHIP
KNOX 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 \$4,117 and \$3,759, respectively.

**UNION TOWNSHIP
KNOX COUNTY**

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

8. JOINTLY GOVERNED ORGANIZATION

The Eastern Knox County Joint Fire District (The District) is a jointly governed organization pursuant to Ohio Revised Code Section 505.3371. The District was formed in 2001 and consists of Brown, Butler, Harrison, Howard, Jefferson and Union Townships and the Villages of Brinkhaven and Danville. The Board consists of a trustee from each township and village and an at large member appointed by the vote of the District Board. Revenues are generated from a five mill operating levy.

9. SUBSEQUENT EVENTS

On January 1, 2006, the Village of Danville incorporated into Danville Township. As a result of the recent incorporation, Union Township will have a decreased local tax base as previous years and, therefore, fewer local taxes in future years.

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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*

Union Township
Knox County
P.O. Box 731
Danville, Ohio 43014

To the Board of Trustees:

We have audited the financial statements of Union Township, Knox County, Ohio, (the Township) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated September 20, 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 opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Township's management dated September 20, 2006, we reported a matter related to internal control we deemed immaterial.

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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003. In a separate letter to the Township's management dated September 20, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

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

Betty Montgomery
Auditor of State

September 20, 2006

UNION TOWNSHIP
KNOX 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

Certification of Funds

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township Board of Trustees can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Township.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Township Board may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Township Fiscal Officer did not properly use standard purchase orders, blanket certificates or super blankets. The Township Fiscal Officer did not properly certify the availability of funds prior to purchase commitment for 66% of the expenditures tested for 2005 and 62% for 2004, and there was no evidence that the Township Board of Trustees followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-001 (Continued)

Certification of Funds (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Township Board of Trustees. Where prior certification is not possible, "then and now" certification should be used.

We recommend the Township Fiscal Officer certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41 (D) requires to authorize disbursements. The Fiscal officer should sign the certification at the time the Township incurs a commitment to the proper appropriation code, to reduce the available appropriation.

Officials' Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2005-002

Employee Fringe Benefits

Ohio Revised Code Section 511.10 states in part that the board of township trustees may appoint such superintendents, architects, clerks, laborers, and other employees as are necessary and fix their compensation.

Ohio Revised Code Section 9.83(A) states in part that the state and any political subdivision may procure a policy or policies of insurance insuring its officers and employees against liability for injury, death, or loss to person or property that arises out of the operation of an automobile, truck, motor vehicle with auxiliary equipment, self-propelling equipment or trailer, aircraft, or watercraft by the officers or employees while engaged in the course of their employment or official responsibilities for the state or the political subdivision. Further, **1982 Op. Atty.Gen. No. 82-037** provides that pursuant to its power to fix the compensation of township employees, a board of township trustees may provide uninsured or underinsured motorist coverage within an automobile or motor vehicle liability insurance policy as a fringe benefit for those township employees whose compensation is fixed by the board.

UNION TOWNSHIP
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2005-002 (Continued)

Employee Fringe Benefits (Continued)

Ohio Attorney General Opinion No. 2003-026 states that under Ohio law, the expenditure of public funds to provide insurance benefits to a public officer or employee constitutes the provision of a fringe benefit that is part of the compensation of the officer or employee. Persons whose compensation is set by statute may receive only the compensation that is authorized by statute, including the fringe benefits that are authorized by statute. Persons who are employed by an appointing authority with power to hire and fix compensation may receive such compensation as the appointing authority establishes; however, the appointing authority is subject to any provisions of law that restrict its authority to grant particular fringe benefits.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951) provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

During fiscal years 2005 and 2004, the Township paid for portions of individual homeowners and auto insurance for the Township's full time employee. The total payments were for \$2,000 (\$1,000 for each fiscal year). This type of insurance reimbursement is not expressly authorized within the above referenced guidance.

We recommend the Trustees determine the wage rate to be paid to Township employees. We further recommend that the Trustees work with their legal counsel to determine the legality of any fringe benefits. Any subsequent increase or decrease should be implemented only after the adoption of a new resolution as to such change, duly recorded in the minutes.

Officials' Response:

We did not receive a response from Officials to this finding.

UNION TOWNSHIP
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2005-003

Finding For Recovery

Ohio Attorney General Opinion No. 2003-026 states that under Ohio law, the expenditure of public funds to provide insurance benefits to a public officer or employee constitutes the provision of a fringe benefit that is part of the compensation of the officer or employee. Persons whose compensation is set by statute may receive only the compensation that is authorized by statute, including the fringe benefits that are authorized by statute. Persons who are employed by an appointing authority with power to hire and fix compensation may receive such compensation as the appointing authority establishes; however, the appointing authority is subject to any provisions of law that restrict its authority to grant particular fringe benefits.

Ohio Revised Code Section 505.602 states a board of township trustees may procure and pay all or any part of the cost of group life insurance to insure the lives of officers and full-time employees of the township. The amount of group life insurance coverage provided by the board to insure the lives of officers of the township shall not exceed fifty thousand dollars per officer. It does not authorize a board of township trustees to procure or pay for individual life insurance policies for the township's officers and employees.

Ohio Revised Code Section 9.83(A) states in part that the state and any political subdivision may procure a policy or policies of insurance insuring its officers and employees against liability for injury, death, or loss to person or property that arises out of the operation of an automobile, truck, motor vehicle with auxiliary equipment, self-propelling equipment or trailer, aircraft, or watercraft by the officers or employees while engaged in the course of their employment or official responsibilities for the state or the political subdivision. Further, **1982 Op. Atty.Gen. No. 82-037** provides that pursuant to its power to fix the compensation of township employees, a board of township trustees may provide uninsured or underinsured motorist coverage within an automobile or motor vehicle liability insurance policy as a fringe benefit for those township employees whose compensation is fixed by the board. A board of township trustees is without authority, however to provide such insurance for township officers.

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2005-003 (Continued)

Finding For Recovery – (Continued)

During fiscal years 2005 and 2004, the Township paid for the following insurance policies for the noted officials. There is no statutory authority allowing these payments.

Official	Bonding Company	Individual Life Insurance Premium Payments	Individual Auto Insurance Premium Payments	Homeowners, and Auto Insurance Premiums
Christine Parr, Fiscal Officer	Ohio Township Association Risk Management Authority		FY 2004 - \$1,000 FY 2005 - <u>\$1,200</u> Total - \$2,200	
William Edmister, Trustee	Ohio Township Association Risk Management Authority			FY 2004 - \$1,000 FY 2005 - <u>\$1,200</u> Total - \$2,200
Theodore Bratton, Trustee	Ohio Township Association Risk Management Authority		FY 2004 - \$1,000 FY 2005 - <u>\$1,200</u> Total - \$2,200	
Thomas Ridgway, Trustee	Ohio Township Association Risk Management Authority	FY 2004 - \$1,000 FY 2005 - <u>\$1,200</u> Total - \$2,200		

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against the above Township Officials, and Ohio Township Association Risk Management Authority, the Officials' bonding company, jointly and severally, for the amounts listed above and in favor of the Township's General fund.

However, Christine Parr, Theodore Bratton and Thomas Ridgway repaid the respective amounts to the Township on October 5, 2006. The repayments were credited to the Township's General Fund.

UNION TOWNSHIP
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2005-003 (Continued)

Finding For Recovery – (Continued)

Officials Response:

It is the strong united opinion of the trustees and the fiscal officer that this finding is unreasonable. The payment of any insurance up to the allotted amount as stated in the first meeting minutes of each year has been standard policy for many, many years.

Also, because of the nominal amount each trustee was being reimbursed along with protecting the township against rising insurance premiums by always specifying a maximum yearly amount the elected officers feel that this is confirmation of our genuine concern for keeping the township's best interest first priority.

We feel that it is unreasonable to request that we pay back the last two years when we can provide you with the allotted yearly amounts that each officer spent out of their own pocket for health insurance costs. It once again is proof the required insurance you say can be covered was indeed incurred by each and every officer during the audit period.

William Edmister:

The policy right or wrong was established many years back and the most fair solution for all concerned would be to point out any errors and warn the Board that going forward, they need to pass a resolution in line with the letter of the law.

Auditor of State's Analysis:

Ohio Revised Code Section 9.83(A) strictly prohibits the reimbursement of car and homeowners insurance for public officials unless they are engaged in the normal course of their employment. Since the invoices submitted for reimbursement by the Officials were for car and home owners' insurance, not related to costs associated in the normal course of Township business, the findings are appropriate under the circumstances.

**UNION TOWNSHIP
KNOX COUNTY**

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

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	Prior Certification of Funds	No	Not Corrected, reissued 2005-001



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UNION TOWNSHIP

KNOX 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 14, 2006**