



Mary Taylor, CPA
Auditor of State

**KNOX TOWNSHIP
JEFFERSON COUNTY**

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Mary Taylor, CPA
Auditor of State

Knox Township
Jefferson County
1402 Township Road 249
Toronto, Ohio 43964

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 an 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 adverse 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 10, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Knox Township
Jefferson County
1402 Township Road 249
Toronto, Ohio 43964

To the Board of Trustees:

We have audited the accompanying financial statements of Knox Township, Jefferson County, (the Township) as of and for the years ended December 31, 2007 and 2006. 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. 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.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. 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.

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, 2007 and 2006 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, 2007 and 2006, 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 of Knox Township, Jefferson County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 November 10, 2008, 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.

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

Mary Taylor, CPA
Auditor of State

November 10, 2008

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Project</u>	
Cash Receipts:				
Property and Other Local Taxes	\$4,788	\$170,738		\$175,526
Intergovernmental	36,801	121,679		158,480
Special Assessments	6,064			6,064
Earnings on Investments	187			187
Miscellaneous	2,350	15,123		17,473
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	50,190	307,540		357,730
Cash Disbursements:				
Current:				
General Government	40,137			40,137
Public Safety		55,269		55,269
Public Works	7,964	276,432		284,396
Health	8,070			8,070
Debt Service:				
Redemption of Principal		2,157		2,157
Interest and Fiscal Charges		661		661
Capital Outlay		64,570	\$9,755	74,325
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	56,171	399,089	9,755	465,015
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(5,981)	(91,549)	(9,755)	(107,285)
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Sale of Notes		50,000		50,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)		50,000		50,000
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	(5,981)	(41,549)	(9,755)	(57,285)
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	13,520	55,064	10,000	78,584
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>	<hr/>
	\$7,539	\$13,515	\$245	\$21,299

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

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Project</u>	
Cash Receipts:				
Property and Other Local Taxes	\$8,243	\$167,848		\$176,091
Intergovernmental	44,201	119,753	\$45,204	209,158
Earnings on Investments	305			305
Miscellaneous	7,489	14,721		22,210
Total Cash Receipts	<u>60,238</u>	<u>302,322</u>	<u>45,204</u>	<u>407,764</u>
Cash Disbursements:				
Current:				
General Government	30,956			30,956
Public Safety		58,452		58,452
Public Works	8,413	256,822		265,235
Health	7,777			7,777
Conservation - Recreation	6,846			6,846
Capital Outlay		15,867	45,204	61,071
Total Cash Disbursements	<u>53,992</u>	<u>331,141</u>	<u>45,204</u>	<u>430,337</u>
Total Receipts Over/(Under) Disbursements	<u>6,246</u>	<u>(28,819)</u>		<u>(22,573)</u>
Other Financing Receipts / (Disbursements):				
Transfers In		16,894	2,150	19,044
Transfers Out	(2,150)	(9,009)	(7,885)	(19,044)
Total Other Financing Receipts / (Disbursements)	<u>(2,150)</u>	<u>7,885</u>	<u>(5,735)</u>	
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	4,096	(20,934)	(5,735)	(22,573)
Fund Cash Balances, January 1	<u>9,424</u>	<u>75,998</u>	<u>15,735</u>	<u>101,157</u>
Fund Cash Balances, December 31	<u>\$13,520</u>	<u>\$55,064</u>	<u>\$10,000</u>	<u>\$78,584</u>

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

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

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 Knox Township, Jefferson County, (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 general government services. The Township contracts with the Knox Township Volunteer Fire Department to provide fire services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. Note 6 to the financial statements provide additional information for this entity. This organization is:

The Ohio Township Association Risk Management Authority (OTARMA) provides property and casualty coverage for its members.

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

B. Accounting Basis

These financial statements follow the accounting basis 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. 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 private-purpose 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.

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant capital project fund:

Issue II Fund - The Township received a grant from the State of Ohio for road projects.

D. 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.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

E. 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.

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

2. EQUITY IN POOLED CASH

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

	2007	2006
Demand deposits	\$21,299	\$78,584

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2007 and 2006 follows:

2007 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$58,184	\$50,190	(\$7,994)
Special Revenue	339,000	357,540	18,540
Total	\$397,184	\$407,730	\$10,546

2007 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$70,105	\$56,171	\$13,934
Special Revenue	344,928	399,089	(54,161)
Capital Projects	10,000	9,755	245
Total	\$425,033	\$465,015	(\$39,982)

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$49,976	\$60,238	\$10,262
Special Revenue	292,145	319,216	27,071
Capital Projects	47,354	47,354	
Total	\$389,475	\$426,808	\$37,333

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$54,538	\$56,142	(\$1,604)
Special Revenue	368,140	340,150	27,990
Capital Projects	17,885	53,089	(35,204)
Total	\$440,563	\$449,381	(\$8,818)

Contrary to Ohio Revised Code Section 5705.41(B), budgetary expenditures exceeded appropriation authority in the funds and amounts as presented in the tables below:

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. BUDGETARY ACTIVITY - (Continued)

2007

Fund	Amount of Variance
Gasoline Tax	\$48,312
Special Road Bond #11	\$4,871
Special Road Bond #14A	\$9,655
Special Road Bond #14B	\$2,901

2006

Fund	Amount of Variance
General	\$1,604
Special Road Bond #11	\$11,665
Special Road Bond #14A	\$6,568
Special Road Bond #14B	\$9,241

Also contrary to Ohio Revised Code 5705.10(H), the following funds had deficit balances:

Fund/Year	Deficit Balance
Motor Vehicle License/ 2007	\$615
Road and Bridge/2007	\$4,059
Special Road Bond #14A/2007	\$9,945
Special Road Bond #14A/2006	\$2,716

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopted tax 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, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Note	\$47,843	4.68%

The Township issued general obligation note to finance the purchase of a new dump truck and plowing equipment for Township road maintenance. The Township's taxing authority collateralized the note.

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

5. DEBT - (Continued)

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

Year ending December 31:	General Obligation Note
2008	\$10,332
2009	11,272
2010	11,272
2011	11,272
2012	9,393
Total	\$53,541

6. RETIREMENT SYSTEM

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

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

Casualty Coverage

For an occurrence prior to January 1, 2006, 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. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence.

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. RISK MANAGEMENT - (Continued)

Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust PEP'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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

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.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. Travelers' provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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 government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal 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, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets	\$43,210,703	\$42,042,275
Liabilities	<u>(13,357,837)</u>	<u>(12,120,661)</u>
Net Assets	<u>\$29,852,866</u>	<u>\$29,921,614</u>

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, respectively.

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

7. RISK MANAGEMENT - (Continued)

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 \$5,583. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

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 detailed 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.

<u>Contributions to OTARMA</u>	
2005	\$7,427
2006	\$7,350
2007	\$5,939

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they 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 budgetary 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 occurred or was reported prior to the withdrawal.

8. LEGAL COMPLIANCE

Contrary to Ohio Revised Code Section 505.60(A), the Township reimbursed two trustees for out-of-pocket premium costs attributable to the officials' spouses and dependents.

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Mary Taylor, CPA

Auditor of State

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

Knox Township
Jefferson County
1402 Township Road 249
Toronto, Ohio 43964

To the Board of Trustees:

We have audited the financial statements of the Knox Township, Jefferson County, (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated November 10, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

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

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-005.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe finding number 2007-005 is also a material weakness.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated November 10, 2008.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-004.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated November 10, 2008.

We intend this report solely for the information and use of management and Township Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

November 10, 2008

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006**

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

FINDING NUMBER 2007-001

Noncompliance Citation

Ohio Revised Code Section 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the Fiscal Officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's Fiscal Officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 no certificate is furnished as required, upon receipt of the Fiscal Officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Township may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000 the Fiscal Officer may authorize payment through a Then and Now Certificate without affirmation of the Township Board of Trustees if such expenditure is otherwise valid.

- 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 may also make expenditures and contracts for any amount from a specific line item appropriation 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 may be outstanding a particular time for any line item appropriation.

The Township did not properly certify the amount against the applicable appropriation accounts for 95% and 76% of tested expenditures in 2006 and 2007, respectively. The Township did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending and negative cash balances. 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, the Fiscal Officer should certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

The Township should certify purchases to which section Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language which Ohio Revised Code Section 5705.41(D) requires authorizing disbursements. The Fiscal Officer should sign the certification at the time the Township incurs a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2007-002

Noncompliance Citation

Ohio Revised Code Section 5705.41 (B) prohibits a subdivision from making expenditure unless it has been properly appropriated.

Expenditures exceeded appropriations in the following funds at December 31, 2006:

Fund	Appropriations	Expenditures	Variance
General Fund	\$54,538	\$56,142	(\$1,604)
Special Road Bond #11 Fund	\$11,376	\$23,041	(\$11,665)
Special Road Bond #14A Fund	\$22,765	\$29,333	(\$6,568)
Special Road Bond #14B Fund	\$27,949	\$37,190	(\$9,241)
Capital Fund	\$10,000	\$45,204	(\$35,204)

Expenditures exceeded appropriations in the following funds at December 31, 2007:

Fund	Appropriations	Expenditures	Variance
Gasoline Tax Fund	\$113,149	\$161,460	(\$48,311)
Special Road Bond #11 Fund	\$15,973	\$20,844	(\$4,871)
Special Road Bond #14A Fund	\$20,814	\$30,469	(\$9,655)
Special Road Bond #14B Fund	\$26,500	\$29,401	(\$2,901)

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request the Board of Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2007-003

Noncompliance Citation

Ohio Revised Code Section 5705.10(H) provides that money paid into any fund shall be used for the purpose for which it was established. The existence of a deficit balance in any fund indicates that monies from another fund or funds had been used to pay the obligations of the fund with the deficit balance.

FINDING NUMBER 2007-003

The following deficit balances were noted during our audit period.

December 31, 2006:

Fund	Amount
Special Road Bond #14A Fund	\$2,716

December 31, 2007:

Fund	Amount
Motor Vehicle License Tax Fund	\$615
Road and Bridge Fund	\$4,059
Special Road Bond #14A Fund	\$9,945

FINDING NUMBER 2007-004

Noncompliance Citation

Ohio Revised Code Section 505.60(A) states that the board of township trustees of any township may procure and pay all or any part of the cost of insurance policies that may provide benefits for hospitalization, surgical care, major medical care, disability, dental care, eye care, medical care, hearing aids, prescription drugs, or sickness and accident insurance, or a combination of any of the foregoing types of insurance for township officers and employees. The board of township trustees of any township may negotiate and contract for the purchase of a policy of long-term care insurance for township officers and employees pursuant to Ohio Revised Code Section 124.841 [124.84.1]

(B) If the board procures any insurance policies under this section, the board shall provide uniform coverage under these policies for township officers and full-time township employees and their immediate dependents, and may provide coverage under these policies for part-time township employees and their immediate dependents, from the funds or budgets from which the officers or employees are compensated for services, such policies to be issued by an insurance company duly authorized to do business in this state. Any township officer or employee may refuse to accept the insurance coverage without affecting the availability of such insurance coverage to other township officers and employees.

(C) If any township officer or employee is denied coverage under a health care plan procured under division (B) of this section or if any township officer or employee elects not to participate in the township's health care plan, the township may reimburse the officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of this section that the officer or employee otherwise obtains, but not to exceed an amount equal to the average premium paid by the township for its officers and employees under policies it procures under division (B) of this section.

This section allows reimbursement for the out of pocket costs incurred by an officer or employee that are associated with obtaining coverage for policies described in section (A). It does not, however, extend such reimbursement to family policies described in section (B).

Attorney General Opinion 2005-038 determined that township officers and employees could be reimbursed for out-of-pocket premium expenses attributable to an officer/employee that are obtained through a spouse's employer. However, the reimbursement through a spouse's plan is limited to the "out-of-pocket premium that the officer or employee incurs", because the policies described in 505.60(A) do not include family coverage.

The Township reimbursed the Officials in the amount of \$9,059.97 for 2006 and \$10,756.95 for 2007. These amounts were in excess of the actual out-of pocket premium expenses attributable to the Township Officials.

Our audits of townships during this audit period have revealed ambiguity in the interpretation of the township reimbursement provisions as demonstrated by various opinions submitted by prosecuting attorneys. In addition, legislation has been introduced and passed by the Ohio House of Representatives to extend reimbursement for township employees and officials for family coverage. Therefore, we will not issue Findings for Recovery for the overpayment for the remainder of the current audit period.

We recommend the Township revise its health care premium reimbursement policy to limit reimbursement to amounts attributable to township officials and employees only, unless, and until the legislature passes Am.H.B. No. 458.

FINDING NUMBER 2007-005

Significant Deficiency/Material Weakness

Proper Classification of Receipts and Disbursements

The Township did not correctly code and classify the following receipts and disbursements in 2006 and 2007 which resulted in reclassifications and adjustments to the financial statements. The Township Fiscal Officer has agreed to the reclassifications and these corrected amounts are reflected in the accompanying financial statements. The adjustments have been posted to the Township ledgers.

Reclassifications - 2007			
Fund Name	Account Type	Amount	Description
General	Licenses, Permits, and Fees Revenue	\$6,064	Recorded as Miscellaneous Revenue
Gasoline Tax	Note Proceeds	\$50,000	Recorded as Intergovernmental Revenue

Adjustments – 2006			
Fund Name	Account Type	Amount	Description
Road and Bridge	Other Revenue Cash Fund Balance	(\$16,894)	Transfer-In recorded twice as Other Revenue and Transfer-In. To delete the Other Revenue posting.

Reclassifications – 2006			
Fund Name	Account Type	Amount	Description
General	Intergovernmental Revenue	\$7,512	Recorded as Miscellaneous Revenue.
Capital Project	Intergovernmental Revenue	\$45,204	Recorded as Miscellaneous Revenue.

Failure to consistently follow a uniform chart of accounts increases the possibility that the Township will not be able to identify, assemble, analyze, classify, record, and report its transactions correctly or to document compliance with finance-related legal and contractual requirements. The Township Fiscal Officer should maintain the accounting system to enable the Township to identify, assemble, analyze, classify, record and report all transactions and to maintain accountability. All transactions should be properly coded and classified according to an adopted chart of accounts to help ensure that financial activity of the Township is accurately recorded and reported. In addition, the Township should adopt procedures for the review of posting of transactions and subsequent posting to the financial statements.

**KNOX TOWNSHIP
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	Ohio Revised Code Section 5705.39 – Appropriations exceeded estimated resources.	Yes	
2005-002	Ohio Revised Code Section 5705.41(B) – Expenditures exceeded appropriations.	No	Reissued as Finding Number 2007-002.
2005-003	Ohio Revised Code Section 5705.41(D) – Certain liabilities, contracts, and open purchase commitments were not certified by the Fiscal Officer and were not encumbered until the time of payment.	No	Reissued as Finding Number 2007-001.
2005-004	Annual Financial Report	No	Corrected as a part of Finding Number 2007-004.



Mary Taylor, CPA
Auditor of State

KNOX TOWNSHIP

JEFFERSON 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
DECEMBER 24, 2008**