



**Auditor of State
Betty Montgomery**

**KNOX TOWNSHIP
JEFFERSON COUNTY**

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**Auditor of State
Betty Montgomery**

Knox Township
Jefferson County
379 County Highway 68
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 a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

September 14, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Knox Township
Jefferson County
379 County Highway 68
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, 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. 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.

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 of Knox Township, Jefferson County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 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 14, 2006

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, 2005**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Local Taxes	\$4,209	\$164,030		\$168,239
Intergovernmental	39,552	127,552	\$101,232	268,336
Earnings on Investments	173			173
Other Revenue	4,657	195		4,852
Total Cash Receipts	<u>48,591</u>	<u>291,777</u>	<u>101,232</u>	<u>441,600</u>
Cash Disbursements:				
Current:				
General Government	39,002			39,002
Public Safety		57,613		57,613
Public Works	4,966	218,505		223,471
Health	7,860			7,860
Conservation - Recreation	1,235			1,235
Debt Service:				
Redemption of Principal		14,417		14,417
Interest and Fiscal Charges		1,452		1,452
Capital Outlay		45,255	95,497	140,752
Total Cash Disbursements	<u>53,063</u>	<u>337,242</u>	<u>95,497</u>	<u>485,802</u>
Total Receipts Over/(Under) Disbursements	<u>(4,472)</u>	<u>(45,465)</u>	<u>5,735</u>	<u>(44,202)</u>
Other Financing Receipts and (Disbursements):				
Transfers-In			10,000	10,000
Transfers-Out	(10,000)			(10,000)
Total Other Financing Receipts/(Disbursements)	<u>(10,000)</u>	<u>0</u>	<u>10,000</u>	<u>0</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(14,472)	(45,465)	15,735	(44,202)
Fund Cash Balances, January 1	<u>23,896</u>	<u>121,463</u>		<u>145,359</u>
Fund Cash Balances, December 31	<u>\$9,424</u>	<u>\$75,998</u>	<u>\$15,735</u>	<u>\$101,157</u>

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, 2004**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$4,232	\$168,038	\$172,270
Intergovernmental	49,078	159,784	208,862
Earnings on Investments	113		113
Other Revenue	9,175	185	9,360
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	62,598	328,007	390,605
Cash Disbursements:			
Current:			
General Government	43,915		43,915
Public Safety		55,095	55,095
Public Works	4,973	193,141	198,114
Health	7,282		7,282
Conservation - Recreation	427		427
Miscellaneous		218	218
Debt Service:			
Redemption of Principal		2,498	2,498
Interest and Fiscal Charges		147	147
Capital Outlay		44,907	44,907
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	56,597	296,006	352,603
Total Receipts Over/(Under) Disbursements	<hr/>	<hr/>	<hr/>
	6,001	32,001	38,002
Other Financing Receipts and (Disbursements):			
Proceeds from Sale of Public Debt:			
Other Proceeds from Sale of Public Debt		44,907	44,907
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	0	44,907	44,907
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>
	6,001	76,908	82,909
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	17,895	44,555	62,450
Fund Cash Balances, December 31	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$23,896	\$121,463	\$145,359

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

**KNOX TOWNSHIP
JEFFERSON 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 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, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Knoxville Volunteer Fire Department to provide fire services 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. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

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

3. 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 Funds:

**KNOX TOWNSHIP
JEFFERSON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

FEMA II Fund - The Township received a FEMA grant to repair damage caused by flooding.

FEMA III Fund - The Township received a FEMA grant to repair damage caused by flooding.

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. Appropriations lapse at year-end.

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 2005 and 2004 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.

F. 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.

**KNOX TOWNSHIP
JEFFERSON COUNTY**

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

	2005	2004
Demand deposits	\$101,157	\$145,359

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

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

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$47,175	\$48,591	\$1,416
Special Revenue	281,079	291,777	10,698
Capital Projects	111,232	111,232	0
Total	\$439,486	\$451,600	\$12,114

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$57,970	\$63,063	(\$5,093)
Special Revenue	396,391	337,242	59,149
Capital Projects	111,232	95,497	15,735
Total	\$565,593	\$495,802	\$69,791

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$59,705	\$62,598	\$2,893
Special Revenue	358,513	372,914	14,401
Total	\$418,218	\$435,512	\$17,294

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$65,061	\$56,597	\$8,464
Special Revenue	303,308	296,006	7,302
Total	\$368,369	\$352,603	\$15,766

**KNOX TOWNSHIP
JEFFERSON COUNTY**

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

3. BUDGETARY ACTIVITY – (Continued)

Contrary to Ohio Revised Code Section 5705.41(D), the Township did not certify or record the amount against the applicable appropriation accounts some of the tested in expenditures in 2005 and 2004. The Township did not utilize the certification exceptions for those expenditures lacking prior simultaneous certification. Contrary to Ohio Revised Code Section 5705.41(B) budgetary expenditures exceeded appropriation authority in the Gas Tax fund for the year ended December 31, 2004 by \$28,735 and in the General Fund, Road 11 Fund, and Road 14A Fund for the year ended December 31, 2005 by \$4,092, \$12,933 and \$2,282, respectively. Lastly, contrary to Ohio Revised Code Section 5705.39 at December 31, 2004, the Road 11 Fund had appropriations exceeding the amount certified as available by the budget commission by \$16,929.

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.

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.

5. DEBT

Debt outstanding at December 31, 2005 was as follows:

	Principal	Interest Rate
Capital Lease	\$27,993	3.83%

The Township entered into a lease purchase agreement to finance the purchase of a new dump truck and plowing equipment for Township road maintenance. The lease is collateralized by the Township's taxing authority.

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

Year ending December 31:	Capital Lease
2006	\$15,868
2007	13,223
Total	\$29,091

**KNOX TOWNSHIP
JEFFERSON COUNTY**

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

6. RETIREMENT SYSTEMS

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 2005 and 2004, OPERS members contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2005.

7. RISK MANAGEMENT

Risk Pool Membership

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 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.

**KNOX TOWNSHIP
JEFFERSON COUNTY**

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

7. RISK MANAGEMENT

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	(12,344,576)	(11,086,379)
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	(1,406,031)	(543,176)
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 \$14,854.



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*

Knox Township
Jefferson County
379 Township Highway 68
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, 2005 and 2004, and have issued our report thereon dated September 14, 2006, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-004. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Township's management dated September 14, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion.

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**Compliance and Other Matters
(Continued)**

The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompany schedule of findings as items 2005-001 through 2005-003. In a separate letter to the Township's management dated September 14, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



Betty Montgomery
Auditor of State

September 14, 2006

**KNOX TOWNSHIP
JEFFERSON COUNTY**

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

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

Noncompliance Citation

Ohio Revised Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of the total estimated revenue available for expenditure from that fund as certified by the budget commission on the Amended Official Certificates of Estimated Resources.

Appropriations exceeded the amount certified as available by the budget commission during 2004 in the Road 11 Fund by \$16,929.

Failure to limit appropriations to the amount certified by the budget commission could result in overspending and negative cash balances. The Township should compare appropriations to estimated resources and if adequate resources are available for additional appropriations, the Township should submit an amended certificate of estimated resources to the budget commission for certification. If the resources are not available to cover the appropriations, an amendment to the appropriation resolution should be passed by the Board of Trustees to reduce the appropriations.

FINDING NUMBER 2005-002

Noncompliance Citation

Ohio Revised Code Section 5705.41 (B) states that no subdivision or taxing authority unit is to expend money unless it has been appropriated.

In 2004, the expenditures exceeded appropriations by \$28,735 in the Gasoline Tax Fund. In 2005, expenditures exceeded appropriations by \$5,092, \$12,933 and \$2,282 in the General Fund, Road 11 Fund, and the Road 14A Fund, respectively.

Failure to properly appropriate all expenditures could result in overspending or deficit balances. 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 2005-003

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 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 Trustees 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 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 or record the amount against the applicable appropriation accounts for 85% of tested expenditures. 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 it is also 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 § 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 to authorize 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 2005-004

Reportable Condition

Annual Financial Report

The annual financial report as filed by the Fiscal Officer was not an accurate reflection of Township activity.

Errors in the financial report included the following:

- The beginning balances for special revenue funds did not accurately reflect the audited ending fund balances of the prior year;
- Receipts and disbursements reflected in the annual report did not always agree with receipts and disbursements as recorded in the receipt and appropriation ledgers, respectively;
- The statements did not foot and cross-foot and total amounts per fund type were not carried forward from the combining statements to the combined statements;
- Intergovernmental revenue for the FEMA Fund was misclassified as other revenue in 2004; and
- Funds were not consistently classified from year to year. In 2004, the FEMA I Fund was recorded as a special revenue fund and in 2005, the FEMA I Fund was recorded as a capital projects fund.

A reclassification to correct the revenue misclassification was made in the amount of \$46,471 on the 2004 financial statement. Adjustments in the amounts of \$6,145 and \$43,388 were made to correct the fund misclassification errors on the 2005 financial statements. The Township has agreed to and posted the reclassification of intergovernmental revenue and the fund classification adjustments. These corrected amounts are reflected in the accompanying financial statements. Less significant changes were also made to the financial statements to correct posting errors and footing errors.

The Fiscal Officer should prepare the Township's annual financial report using audited fund balances and accurate receipt and expenditure amounts from the ledgers. Funds should be consistently classified and reported and the financial report should be checked for accuracy.

Officials' Response

We did not receive a response from Officials to the findings reported above.

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**KNOX TOWNSHIP
JEFFERSON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003**

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	ORC 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	Finding will be reissued as finding number 2005-003



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**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 7, 2006**