



Auditor of State
Betty Montgomery

**KNOX TOWNSHIP
HOLMES COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Knox Township
Holmes County
5375 County Road 22
Glenmont, Ohio 44628

To the Board of Trustees:

We have audited the accompanying financial statements of Knox Township, Holmes County, Ohio, (the Township) as of and for the years ended December 31, 2002 and 2001. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2003 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of management, the Board of Trustees and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by 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

July 25, 2003

**KNOX TOWNSHIP
HOLMES COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$23,050	\$28,637	\$51,687
Intergovernmental	34,418	66,569	100,987
Charges for Services		4,203	4,203
Earnings on Investments	870	299	1,169
Other Revenue	1,862	131	1,993
	<u>60,200</u>	<u>99,839</u>	<u>160,039</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	57,286		57,286
Public Works		81,831	81,831
Health	4,816		4,816
Debt Service:			
Redemption of Principal		7,362	7,362
Interest and Fiscal Charges		2,166	2,166
	<u>62,102</u>	<u>91,359</u>	<u>153,461</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	(1,902)	8,480	6,578
Fund Cash Balances, January 1	84,696	33,243	117,939
Fund Cash Balances, December 31	<u>\$82,794</u>	<u>\$41,723</u>	<u>\$124,517</u>

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

**KNOX TOWNSHIP
HOLMES COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN
FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$20,300	\$26,665	\$46,965
Intergovernmental	47,981	64,594	112,575
Charges for Services		6,615	6,615
Earnings on Investments	1,308	633	1,941
Other Revenue	3,651	728	4,379
	<u>73,240</u>	<u>99,235</u>	<u>172,475</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
General Government	44,663		44,663
Public Works	4,817	93,825	98,642
Debt Service:			
Redemption of Principal		5,410	5,410
Interest and Fiscal Charges		2,212	2,212
Capital Outlay	448	17,459	17,907
	<u>49,928</u>	<u>118,906</u>	<u>168,834</u>
Total Cash Disbursements			
Total Cash Receipts Over/(Under) Cash Disbursements	23,312	(19,671)	3,641
Fund Cash Balances, January 1	<u>61,384</u>	<u>52,914</u>	<u>114,298</u>
Fund Cash Balances, December 31	<u><u>\$84,696</u></u>	<u><u>\$33,243</u></u>	<u><u>\$114,298</u></u>

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

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Knox Township, Holmes County, (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general government services and road and bridge maintenance. The Township contracts with the Western Holmes County Fire District for fire protection, ambulance and emergency medical services. The Township contracts with the Holmes County Sheriff's Department for police protection.

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

The Township is associated with certain organizations which are defined as Jointly Governed Organizations under Governmental Accounting Standards Board (GASB) Statement No. 14, Reporting Entity. These organizations are presented in Notes 9 thru 12 these organizations include:

- Holmes County, Emergency Management Council
- Holmes County, Health District Advisory Council
- Western Holmes County, Fire District Board
- Holmes County Planning Commission

B. Basis of Accounting

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

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

C. Cash

The Township maintains all of its cash in an interest-bearing checking account.

D. Fund Accounting

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

1. General Fund

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

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

These funds are used to 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:

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

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

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 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 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Vacation Leave

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

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH

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

	<u>2002</u>	<u>2001</u>
Demand deposits	\$124,517	\$117,939

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation or (2) collateralized by securities specifically pledged by the financial institution to the Township.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$134,437	\$60,200	(\$74,237)
Special Revenue	128,323	99,839	(28,484)
Total	\$262,760	\$160,039	(\$102,721)

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$0	\$62,102	(\$62,102)
Special Revenue	0	91,359	(91,359)
Total	\$0	\$153,461	(\$153,461)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$106,524	\$73,240	(\$33,284)
Special Revenue	144,814	99,235	(45,579)
Total	\$251,338	\$172,475	(\$78,863)

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$106,000	\$49,928	\$56,072
Special Revenue	144,300	118,906	25,394
Total	\$250,300	\$168,834	\$81,466

4. MATERIAL NONCOMPLIANCE

Contrary to Ohio Rev. Code Section 5705.41(D), certain 2002 and 2001 expenditures were not certified until the time of payment.

Contrary to Ohio Rev. Code Sections 5705.38, the Township did not formally adopt a permanent appropriation resolution for 2002.

5. PROPERTY TAX

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

Public utilities are also taxed on personal and real property located within the Township.

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

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

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	Principal	Interest Rate
2000 Ford F-350 4WD Cab & Chassis Loan	\$18,765	7.50%

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT (Continued)

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

Year ending December 31:	<u>Ford F-350 Loan</u>
2003	\$7,622
2004	7,622
2005	<u>7,622</u>
Total	<u><u>\$22,866</u></u>

7. RETIREMENT SYSTEM

The Township's full time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, members of OPERS contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Township has paid all contributions required through December 31, 2002.

8. RISK MANAGEMENT

Commercial Insurance

The Township has obtained commercial insurance for the following risks:

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

9. HOLMES COUNTY EMERGENCY MANAGEMENT AGENCY

The Agency is a statutorily created political subdivision of the State. The Agency is jointly governed among Holmes County, municipalities and townships. The Agency establishes a program for emergency management that includes development of an emergency operations plan which is applicable to all political subdivisions that have entered into the county-wide agreement.

10. HOLMES HEALTH COUNTY DISTRICT ADVISORY COUNCIL

The Council is a body politic and corporate established under Section 3709.01, Revised Code, for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Council operates under the direction of a five-member appointed board and appointed health commissioner. Services provided by the Council include referrals to Bureau of Crippled Children Services Program, communicable disease investigations, immunization clinics, tuberculosis screening, home visits, various licenses and permits, including inspections, birth and death certificates and related services.

**KNOX TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

11. WESTERN HOLMES COUNTY FIRE DISTRICT

The District is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The District is directed by an appointed four-member Board of Trustees. One board member is appointed by each political subdivision within the District. The District provides fire protection services within the District and by contract to areas outside the District.

12. HOLMES COUNTY PLANNING COMMISSION

The Commission is governed by an eleven member board, of which seven are appointed by the County. The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social economical and governmental characteristics, functions and social, economical and governmental characteristics, functions and services of the County.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Knox Township
Holmes County
5375 County Road 22
Glenmont, Ohio 44628

To the Board of Trustees:

We have audited the accompanying financial statements of Knox Township, Holmes County, Ohio, (the Township) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated July 25, 2003. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-001 and 2002-002.

In addition, we noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated July 25, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated July 25, 2003.

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Knox Township
Holmes County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management, the Board of Trustees and is not intended to be and should not be used by 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

July 25, 2003

**KNOX TOWNSHIP
HOLMES COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same 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. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides for two "exceptions" to the above requirements:

1. Then and Now Certificates - 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 Board 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
2. If the amount involved is less than \$1,000 (which was increased to \$3,000 as of April 7, 2003) , the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board, if such expenditure is otherwise valid

During 2001, 24 out of 30 expenditures tested (80%) were not certified by the Clerk prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in non-compliance. . Also, since evidence did not exist that 2002 annual appropriations were adopted by the Trustees, as discussed in Finding 2002-002, none of the 2002 expenditures were properly certified. The Township should certify the availability of funds prior to incurring the obligation for expenditures. The Township should also implement the use of Then and Now certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41.

FINDING NUMBER 2002-002

Ohio Rev. Code Section 5705.38 requires that on or about the first day of each fiscal year, an appropriation measure be passed. The Township may pass a temporary appropriation measure to meet their ordinary expenses until April 1, at which time a permanent appropriation measure must be passed. Also, no subdivision or taxing unit is to expend money unless it has been appropriated.

Upon review of the Township minutes, evidence did not exist to support that the Township Trustees had adopted a permanent appropriation measure for 2002. As a result, expenditures made during that year were not legally expended and exceeded appropriations. In addition, during 2001, fund level expenditures plus outstanding encumbrances exceeded appropriations in the Special Revenue Road District Fund by \$815. The Township Trustees should adopt a permanent appropriation measure by April 1 of each year. The Clerk/Treasurer should frequently compare appropriations to estimated resources to ensure sufficient monies are available for expenditure, and when necessary request an increased/decreased Amended Certificate of Estimate Resources from the Holmes County Auditor.

**KNOX TOWNSHIP
HOLMES COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2000-40938-001	Revised Code 5705.41(D), failure to certify funds. During 2000 and 1999, 97% of expenditures tested were not properly certified.	No	Not corrected. During 2002 and 2001, 80% of expenditures tested were not properly certified. Refer to Finding Number 2002-40938-001.
2000-40938-002	Ohio Adm. Code Sections 117-03-21, 117-03-22 and 117-03-23, failure to properly code receipts and expenditures.	No	Not corrected. Recommendation will be reported in the Management Letter.



**Auditor of State
Betty Montgomery**

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KNOX TOWNSHIP

HOLMES 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
SEPTEMBER 9, 2003**