



Mary Taylor, CPA
Auditor of State

FRANKLIN TOWNSHIP
JACKSON COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2005.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings.....	19

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Mary Taylor, CPA

Auditor of State

Franklin Township
Jackson County
2814 Bert Harrold Road
Jackson, Ohio 45640

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.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 14, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Franklin Township
Jackson County
2814 Bert Harrold Road
Jackson, Ohio 45640

To the Board of Trustees:

We have audited the accompanying financial statements of Franklin Township, Jackson County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005. 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, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, 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 Franklin Township, Jackson County, as of December 31, 2006 and 2005, 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 September 14, 2007, 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.



Mary Taylor, CPA
Auditor of State

September 14, 2007

**FRANKLIN TOWNSHIP
JACKSON 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>			<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	<u>(Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$ 85,906	\$ 27,757	\$	\$ 113,663
Intergovernmental	48,733	190,571		239,304
Earnings on Investments	133	2,109	80	2,322
Miscellaneous	1,590	614		2,204
	<u>136,362</u>	<u>221,051</u>	<u>80</u>	<u>357,493</u>
Total Cash Receipts				
	<u>136,362</u>	<u>221,051</u>	<u>80</u>	<u>357,493</u>
Cash Disbursements:				
Current:				
General Government	88,536			88,536
Public Safety		25,750		25,750
Public Works		63,615		63,615
Miscellaneous			225	225
Health	10,270			10,270
Capital Outlay		39,019		39,019
Note Principal Payment	20,923			20,923
Interest and Fiscal Charges	3,647			3,647
	<u>123,376</u>	<u>128,384</u>	<u>225</u>	<u>251,985</u>
Total Cash Disbursements				
	<u>123,376</u>	<u>128,384</u>	<u>225</u>	<u>251,985</u>
Total Cash Receipts Over/(Under) Cash Disbursements	12,986	92,667	(145)	105,508
Other Financing Receipts/(Disbursements):				
Other Financing Sources	984			984
	<u>984</u>	<u>0</u>	<u></u>	<u>984</u>
Total Other Financing Receipts/(Disbursements)				
	<u>984</u>	<u>0</u>	<u></u>	<u>984</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	<u>13,970</u>	<u>92,667</u>	<u>(145)</u>	<u>106,492</u>
Fund Cash Balances, January 1	<u>74,217</u>	<u>94,206</u>	<u>5,382</u>	<u>173,805</u>
Fund Cash Balances, December 31	<u><u>\$ 88,187</u></u>	<u><u>\$ 186,873</u></u>	<u><u>\$ 5,237</u></u>	<u><u>\$ 280,297</u></u>

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

**FRANKLIN TOWNSHIP
JACKSON 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>			<u>Totals</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	<u>(Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$ 70,763	\$ 25,410	\$	\$ 96,173
Intergovernmental	48,020	179,902		227,922
Earnings on Investments	243	1,997	61	2,301
Miscellaneous		7,561		7,561
	<u>119,026</u>	<u>214,870</u>	<u>61</u>	<u>333,957</u>
Total Cash Receipts				
	<u>119,026</u>	<u>214,870</u>	<u>61</u>	<u>333,957</u>
Cash Disbursements:				
Current:				
General Government	82,955			82,955
Public Works	14,545	118,966		133,511
Health	9,324			9,324
Capital Outlay	93,287	129,336		222,623
Note Principal Payment	11,013			11,013
Interest and Fiscal Charges	1,587			1,587
	<u>212,711</u>	<u>248,302</u>	<u>0</u>	<u>461,013</u>
Total Cash Disbursements				
	<u>212,711</u>	<u>248,302</u>	<u>0</u>	<u>461,013</u>
Total Cash Receipts Over/(Under) Cash Disbursements	(93,685)	(33,432)	61	(127,056)
Other Financing Receipts/(Disbursements):				
Proceeds from Note	54,000			54,000
Other Financing Sources	1,066			1,066
	<u>55,066</u>	<u>0</u>	<u>0</u>	<u>55,066</u>
Total Other Financing Receipts/(Disbursements)				
	<u>55,066</u>	<u>0</u>	<u>0</u>	<u>55,066</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	<u>(38,619)</u>	<u>(33,432)</u>	<u>61</u>	<u>(71,990)</u>
Fund Cash Balances, January 1 (As Restated)	<u>112,836</u>	<u>127,638</u>	<u>5,321</u>	<u>245,795</u>
Fund Cash Balances, December 31	<u><u>\$ 74,217</u></u>	<u><u>\$ 94,206</u></u>	<u><u>\$ 5,382</u></u>	<u><u>\$ 173,805</u></u>

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

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

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 Franklin Township, Jackson 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 fire protection. The Township contracts with the city of Jackson to provide fire services.

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. Cash and Investments

The Township invests all available funds of the Township in an interest bearing checking account, a savings account, and certificates of deposit.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

These funds account for proceeds from specific sources 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 monies for constructing, maintaining and repairing Township roads.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Fire Fund - This fund receives property tax money to pay for fire protection for the Township

Permissive Sales Tax Fund - This fund receives monies from permissive sales tax proceeds for permanent improvement projects within the Township.

3. Permanent Fund

This fund accounts for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following Permanent Fund:

Cemetery Bequest Fund - This fund receives interest revenue earned on bequest monies to be used for the maintenance of the Township cemetery.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function 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 2006 and 2005 budgetary activity appears in Note 3.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Cash and Investments

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

	2006	2005
Demand deposits	\$ 237,731	\$ 133,165
Certificates of Deposit	42,566	40,640
Total deposits	\$ 280,297	\$ 173,805

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 120,092	\$ 137,346	\$ 17,254
Special Revenue	208,731	221,051	12,320
Permanent	155	80	(75)
Total	\$ 328,978	\$ 358,477	\$ 29,499

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 194,309	\$ 123,376	\$ 70,933
Special Revenue	295,099	128,384	166,715
Permanent	155	225	(70)
Total	\$ 489,563	\$ 251,985	\$ 237,578

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. Budgetary Activity (Continued)

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 77,755	\$ 174,092	\$ 96,337
Special Revenue	199,135	214,870	15,735
Permanent	49	61	12
Total	\$ 276,939	\$ 389,023	\$ 112,084

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 190,590	\$ 212,711	\$ (22,121)
Special Revenue	320,766	248,302	72,464
Permanent	149	0	149
Total	\$ 511,505	\$ 461,013	\$ 50,492

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.

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, 2006 was as follows:

	Principal	Interest Rate
Equipment Loan	\$ 44,091	4.25%

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

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

5. Debt (Continued)

Year ending December 31:	Equipment Loan
2007	\$ 12,236
2008	12,236
2009	12,236
2010	12,236
Total	<u>\$ 48,944</u>

6. Retirement System

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

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OPERS members contributed 9% and 8.5%, respectively, of their gross salaries and the Township contributed an amount equaling 13.7% and 13.55%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2006.

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, including loss adjustment expenses. 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.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. Risk Management (Continued)

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 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

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. 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 values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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, 2006 and 2005:

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

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. Risk Management (Continued)

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively.

These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$11,000. 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>	
2004	\$ 5,133
2005	\$ 5,021
2006	\$ 5,611

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give 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. Restatement of Beginning Balances

The December 31, 2004 balances were restated because of prior unrecorded audit adjustments and unrecorded interest:

Fund Type	12/31/2004 Audited Balance	Errors	1/1/2005 Restated Balance
General Fund	\$ 112,950	\$ (114)	\$ 112,836
Special Revenue	120,517	7,121	127,638
Fiduciary Fund	5,321	0	5,321
	<u>\$ 238,788</u>	<u>\$ 7,007</u>	<u>\$ 245,795</u>

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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

Franklin Township
Jackson County
2814 Bert Harrold Road
Jackson, Ohio 45640

To the Board of Trustees:

We have audited the financial statements of Franklin Township, Jackson County, Ohio (the Township), as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 14, 2007, 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 the 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: 2006-001.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe finding number 2006-001 is a material weakness.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated September 14, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-001 and 2006-002.

We also noted certain noncompliance or other matters that we reported to the Township's management in a separate letter dated September 14, 2007.

The Township's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

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



Mary Taylor, CPA
Auditor of State

September 14, 2007

**FRANKLIN TOWNSHIP
JACKSON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2006-001

Noncompliance Citation – Material Weakness

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

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

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

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

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

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

In our testing of 2005 and 2006 expenditures, we noted the following:

- 100% of 2005 and 83% of 2006 expenditures were obligated prior to certification by the Fiscal Officer that funds had been appropriated to meet the expenditure;
- In lieu of utilizing actual purchase orders, the Fiscal Officer certified amounts were appropriated to meet the obligations on the voucher jacket; and
- Encumbrances (purchase orders) were not written against appropriations in the appropriation ledger, but rather expenditures were written-off directly to appropriations.

**FRANKLIN TOWNSHIP
JACKSON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

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

FINDING NUMBER 2006-001 (Continued)

Noncompliance Citation – Material Weakness (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend that the Township Fiscal Officer 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.

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

Client Response:

The Fiscal Officer does not believe it is advantageous to invest a significant amount of time in order to properly certify expenditures in accordance with Ohio Rev. Code Section 5705.41(D)(1).

FINDING NUMBER 2006-002

Finding for Recovery – Repaid Under Audit

A payroll check was issued by the Fiscal officer, Michael Rhea, on July 7, 2006 to a Township employee, Roy J. Lundy, in the gross amount of \$1,650.00, rather than the net amount of \$1,254.32, which was an overpayment of \$395.68. The payroll check was posted correctly to the cashbook, appropriation ledger, and payroll journal, but was inadvertently issued for the gross amount.

In accordance with the foregoing facts, and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public money illegally expended is hereby issued against Roy J. Lundy, Township Employee, and Michael E. Rhea, Fiscal Officer, and the Ohio Township Association Risk Management Authority, his bonding company, jointly and severally, in the amount of \$395.68 in favor of the Gasoline Tax Fund of Franklin Township.

Client Response:

The Fiscal Officer, Michael E. Rhea, acknowledged the error and issued a personal check to the Township, and deposited \$395.68 to the credit of the Township's checking account on August 28, 2007.

FRANKLIN TOWNSHIP
JACKSON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	A material citation was issued under Ohio Rev. Code Section 5705.36 for appropriations exceeding available resources.	Yes	N/A



Mary Taylor, CPA
Auditor of State

FRANKLIN TOWNSHIP

JACKSON 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 4, 2007**