



**Auditor of State  
Betty Montgomery**



KNOX TOWNSHIP  
VINTON COUNTY

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## Auditor of State Betty Montgomery

### INDEPENDENT ACCOUNTANTS' REPORT

Knox Township  
Vinton County  
75173 Lively Ridge Road  
Albany, Ohio 45710

To the Board of Township Trustees:

We have audited the accompanying financial statements of the Knox Township, Vinton County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002. 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 reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Township's processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code Section 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments.

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 Knox Township, Vinton County, as of December 31, 2003 and 2002, 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 December 28, 2004 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. That report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. 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.

This report is intended solely for the information and use of the management, the Board of Township Trustees and other officials authorized to receive this report under Section 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

December 28, 2004

**KNOX TOWNSHIP  
VINTON COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

|  | <u>Governmental Fund Types</u> |                            | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|--|--------------------------------|----------------------------|---|
|  | <u>General</u>                 | <u>Special<br/>Revenue</u> |   |
| <b>Cash Receipts:</b>  |                                |                            |   |
| Local Taxes  | \$ 7,300                       | \$ 15,162                  | \$ 22,462                               |
| Intergovernmental  | 8,224                          | 87,853                     | 96,077                                  |
| Charges for Services   | 339                            |                            | 339                                     |
| Earnings on Investments  | 175                            | 75                         | 250                                     |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Receipts  | 16,038                         | 103,090                    | 119,128                                 |
| <b>Cash Disbursements:</b>   |                                |                            |   |
| Current:   |                                |                            |   |
| General Government   | 21,462                         |                            | 21,462                                  |
| Public Safety  | 200                            | 9,443                      | 9,643                                   |
| Public Works   |                                | 77,366                     | 77,366                                  |
| Health   |                                | 6,118                      | 6,118                                   |
| Debt Service:  |                                |                            |   |
| Redemption of Principal  |                                | 11,712                     | 11,712                                  |
| Interest and Fiscal Charges  |                                | 205                        | 205                                     |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Disbursements   | 21,662                         | 104,844                    | 126,506                                 |
| Total Cash Receipts Over/(Under) Cash Disbursements  | <hr/>                          | <hr/>                      | <hr/>                                   |
|  | (5,624)                        | (1,754)                    | (7,378)                                 |
| <b>Other Financing Receipts/(Disbursements):</b>   |                                |                            |   |
| Transfers-In   |                                | 4,000                      | 4,000                                   |
| Transfers-Out  | (4,000)                        | 0                          | (4,000)                                 |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Other Financing Receipts/(Disbursements)   | (4,000)                        | 4,000                      | 0                                       |
| Excess of Cash Receipts and Other Financing<br>Receipts Over/(Under) Cash Disbursements<br>and Other Financing Disbursements | <hr/>                          | <hr/>                      | <hr/>                                   |
|  | (9,624)                        | 2,246                      | (7,378)                                 |
| Fund Cash Balances, January 1  | <hr/>                          | <hr/>                      | <hr/>                                   |
|  | 12,562                         | 14,650                     | 27,212                                  |
| <b>Fund Cash Balances, December 31</b>   | <hr/>                          | <hr/>                      | <hr/>                                   |
|  | <b>\$ 2,938</b>                | <b>\$ 16,896</b>           | <b>\$ 19,834</b>                        |

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

**KNOX TOWNSHIP  
VINTON 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<br/>(Memorandum<br/>Only)</u> |
|--|--------------------------------|----------------------------|---|
|  | <u>General</u>                 | <u>Special<br/>Revenue</u> |   |
| <b>Cash Receipts:</b>  |                                |                            |   |
| Local Taxes  | \$ 7,061                       | \$ 14,879                  | \$ 21,940                               |
| Intergovernmental  | 8,294                          | 63,427                     | 71,721                                  |
| Earnings on Investments  | 419                            | 192                        | 611                                     |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Receipts  | 15,774                         | 78,498                     | 94,272                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| <b>Cash Disbursements:</b>   |                                |                            |   |
| Current:   |                                |                            |   |
| General Government   | 15,975                         |                            | 15,975                                  |
| Public Safety  | 1,650                          |                            | 1,650                                   |
| Public Works   |                                | 96,511                     | 96,511                                  |
| Health   |                                | 3,632                      | 3,632                                   |
| Capital Outlay   |                                | 51,917                     | 51,917                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Disbursements   | 17,625                         | 152,060                    | 169,685                                 |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Cash Receipts Over/(Under) Cash Disbursements  | (1,851)                        | (73,562)                   | (75,413)                                |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| <b>Other Financing Receipts/(Disbursements):</b>   |                                |                            |   |
| Sale of Notes  |                                | 51,917                     | 51,917                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Total Other Financing Receipts/(Disbursements)   | 0                              | 51,917                     | 51,917                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Excess of Cash Receipts and Other Financing<br>Receipts Over/(Under) Cash Disbursements<br>and Other Financing Disbursements | (1,851)                        | (21,645)                   | (23,496)                                |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| Fund Cash Balances, January 1  | 14,413                         | 36,295                     | 50,708                                  |
|  | <hr/>                          | <hr/>                      | <hr/>                                   |
| <b>Fund Cash Balances, December 31</b>   | <b>\$ 12,562</b>               | <b>\$ 14,650</b>           | <b>\$ 27,212</b>                        |
|  | <hr/> <hr/>                    | <hr/> <hr/>                | <hr/> <hr/>                             |

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



**KNOX TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

Knox Township, Vinton 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 and a publicly-elected Clerk. The Township provides road and bridge maintenance, fire and emergency medical services, and cemetery maintenance.

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 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 and Investments**

The Township Clerk invests all available funds of the Township in interest-bearing checking accounts.

**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.

**2. Special Revenue Funds**

These funds are used to 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 money for constructing, maintaining and repairing Township roads.

*Dust Control Fund* - This fund receives property tax money for dust control on Township roads.

**KNOX TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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. 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 cancelled, and reappropriated in the subsequent year. The Township did not encumber all commitments as required by Ohio Law.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

**F. Property, Plant and Equipment**

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

**2. EQUITY IN POOLED CASH**

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

|                 |                  |                  |
|-----------------|------------------|------------------|
|                 | <u>2003</u>      | <u>2002</u>      |
| Demand deposits | <u>\$ 19,834</u> | <u>\$ 27,212</u> |

**Deposits:** Deposits are insured by the Federal Deposit Insurance Corporation.

**KNOX TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

| 2003 Budgeted vs. Actual Receipts |                      |                    |           |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance  |
| General                           | \$ 15,178            | \$ 16,038          | \$ 860    |
| Special Revenue                   | 75,499               | 107,090            | 31,591    |
| Total                             | \$ 90,677            | \$ 123,128         | \$ 32,451 |

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |             |
|---|----------------------------|---------------------------|-------------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance    |
| General   | \$ 27,193                  | \$ 25,662                 | \$ 1,531    |
| Special Revenue                                       | 90,694                     | 104,844                   | (14,150)    |
| Total   | \$ 117,887                 | \$ 130,506                | \$ (12,619) |

| 2002 Budgeted vs. Actual Receipts |                      |                    |             |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance    |
| General                           | \$ 32,982            | \$ 15,774          | \$ (17,208) |
| Special Revenue                   | 119,032              | 130,415            | 11,383      |
| Total                             | \$ 152,014           | \$ 146,189         | \$ (5,825)  |

| 2002 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |           |
|---|----------------------------|---------------------------|-----------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance  |
| General   | \$ 19,564                  | \$ 17,625                 | \$ 1,939  |
| Special Revenue                                       | 179,177                    | 152,060                   | 27,117    |
| Total   | \$ 198,741                 | \$ 169,685                | \$ 29,056 |

Contrary to Ohio Law expenditures exceeded appropriations by \$375 in the Gasoline Tax Fund, by \$7,435 in the Motor Vehicle License Tax Fund and by \$9,443 in the Dust Control Fund at December 31, 2003.

**4. 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.

**KNOX TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**4. PROPERTY TAX (Continued)**

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, 2003 was as follows:

|                         | Principal | Interest<br>Rate |
|-------------------------|-----------|------------------|
| General Obligation Note | \$ 40,205 | 4.75%            |

The general obligation note was issued to finance the purchase of a tractor to be used for Township road maintenance. The full faith and credit of the Township has been pledged to repay this debt.

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

|                          | General<br>Obligation<br>Note |
|--------------------------|-------------------------------|
| Year Ending December 31: |                               |
| 2004                     | \$ 11,917                     |
| 2005                     | 11,917                        |
| 2006                     | 11,917                        |
| 2007                     | 11,332                        |
| Total                    | \$ 47,083                     |

**6. RETIREMENT SYSTEM**

The Township's elected officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides 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 2003 and 2002, members of PERS contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries. The Township has paid all employer contributions required through December 31, 2003.

**KNOX TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**7. RISK POOL MEMBERSHIP**

**Risk Pool Membership**

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio local governments. 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

OTARMA retains casualty risks up to \$250,000 per claim, including loss 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 \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, OTARMA retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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.

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:

| <u>Casualty Coverage</u> | <u>2003</u>         | <u>2002</u>         |
|--------------------------|---------------------|---------------------|
| Assets                   | \$27,792,223        | \$23,757,036        |
| Liabilities              | (11,791,300)        | (9,197,512)         |
| Retained earnings        | <u>\$16,000,923</u> | <u>\$14,559,524</u> |

| <u>Property Coverage</u> | <u>2003</u>        | <u>2002</u>        |
|--------------------------|--------------------|--------------------|
| Assets                   | \$6,791,060        | \$6,596,996        |
| Liabilities              | (750,956)          | (1,204,326)        |
| Retained earnings        | <u>\$6,040,104</u> | <u>\$5,392,670</u> |

**KNOX TOWNSHIP  
VINTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

**8. RESTATEMENT OF BEGINNING FUND BALANCE**

On December 22, 2004, the Board of Township Trustees approved making adjustments to the January 1, 2002 beginning balances to correct the Finding for Adjustments noted in the December 31, 2001 and 2000 audit report's Schedule of Findings as Finding Numbers 2001-004, 2001-006. The Board of Township Trustees also approved moving expenditures that were made from revenues that were posted incorrectly to the General Fund so that the related expenditure followed the corresponding revenue as long as the expenditure was allowable from the fund in which the revenues should have been posted. In addition, the Board of Trustees approved an allocation plan for expenditures that should have been paid from various funds, (such as electric, phone, insurance and Audit of State fees for the Uniform Accounting Network and 2000/2001 audit fees), instead of solely from the General Fund. The following table reflects the changes in fund balances:

| Fund Type       | Audited December 31,<br>2001 Balance | Total Finding<br>for Adjustment<br>Amounts | Expenditure<br>Adjustments | Restated January<br>1, 2002<br>Beginning<br>Balance |
|-----------------|--------------------------------------|--|----------------------------|---|
| General         | \$ 24,400                            | \$ (27,638)                                | \$ 17,651                  | \$ 14,413   |
| Special Revenue | 26,308                               | 27,638                                     | (17,651)                   | 36,295  |
| Total           | <u>\$ 50,708</u>                     | <u>0</u>                                   | <u>\$ 0</u>                | <u>\$ 50,708</u>                                    |

**9. SUBSEQUENT EVENTS**

On December 22, 2004 the Board of Township Trustees approved advancing \$5,300 from the Gasoline Tax Fund to the Motor Vehicle License Tax Fund to eliminate the negative fund balance. The Township intends to repay this advance during 2005.



**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  
Vinton County  
75173 Lively Ridge Road  
Albany, Ohio 45710

To the Board of Township Trustees:

We have audited the financial statements of Knox Township, Vinton County, Ohio (the Township), as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated December 28, 2004, wherein we noted that the Township's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to your 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 the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2003-01 through 2003-003.

**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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2003-001 through 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to the management of the Township in a separate letter dated December 28, 2004.

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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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe reportable conditions 2003-001 through 2003-003 described above are material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Township in a separate letter dated December 28, 2004

This report is intended solely for the information and use of management and 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

December 28, 2004



**KNOX TOWNSHIP  
VINTON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002**

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

**FINDING NUMBER 2003-001**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 5705.41(D) (1) states no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer attached that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

One of the exceptions to this basic requirement is:

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, 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 taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district. Amounts of less than \$1000 (increased to \$3,000 on April 7, 2003) may be paid by the fiscal officer without such affirmation of the taxing authority 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 taxing authority.

Funds were not certified prior to purchase commitment being made and no "then and now" certificate was obtained for sixty-six percent of the transactions tested. Failure to properly certify the availability of funds can result in overspending funds and negative fund balances.

We recommend the Township establish procedures to assure that the required certification of funds from the Township Clerk is obtained prior to purchases being made. In the event this does not occur, we recommend the Township Clerk pursue a "then and now" certificate as stated above.

**FINDING NUMBER 2003-002**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. Therefore, to be in compliance, total disbursements, plus encumbrances outstanding cannot exceed total appropriations at the legal level of control.

The Township's legal level of control is defined as the level at which the permanent appropriation measure was adopted, which is the fund level. Ohio Rev. Code Section 5705.38(C) requires appropriating as follows: Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services. Disbursements exceeded total appropriations in the following funds at the legal level of control: by \$375 in the Gasoline Tax Fund, by \$7,435 in the Motor Vehicle License Tax Fund and by \$9,443 in the Dust Control Fund at December 31, 2003.

We recommend the Board of Trustees budget at the levels described above, which is lower than the fund level the Township has used for appropriating. In addition, the Township Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Township Clerk may request the Board of Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**KNOX TOWNSHIP  
VINTON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**FINDING NUMBER 2003-003**

**Noncompliance Citation/Material Weakness**

Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 provides guidelines pertaining to allowable inter-fund transfers. In certain circumstances, which are detailed in Ohio Rev. Code Section 5705.14, transfers from funds other than the General Fund may be made by resolution of the taxing authority, passed by two-thirds affirmative vote. In addition to transfers from the General Fund and those permitted by Ohio Rev. Code Section 5705.14, the taxing authority of any political subdivision, with the approval of the Tax Commissioner and the Court of Common Pleas, may transfer from one fund to any other public funds under its supervision, with certain exceptions detailed in Ohio Rev. Code Section 5705.15.

Ohio Rev. Code Section 5705.14 indicates that before and interfund transfer can be made from the General Fund a resolution of the taxing authority of the political subdivision shall pass by a majority of the governing board. See also 1989 Ohio Attorney General Opinion Number 89-075. Ohio Rev. Code Section 5705.14 (E) has been interpreted to require a resolution passed by a simple majority when transferring funds from the general revenue fund to specific funds.

The Township transferred \$100 from the Gasoline Tax Fund to the Motor Vehicle License Tax Fund in 2003, which was not an allowable transfer under Ohio Rev. Code Section 5705.14.

The Township made a fund balance adjustment, in 2002, which transferred \$3,208 from the Gasoline Tax Fund into the General Fund which is not an allowable transfer under Ohio Rev. Code Section 5705.14.

Ohio Rev. Code Section 5705.10 states, in part, that all revenue derived from a special levy is to be credited to a special fund for the purpose for which the levy was made. In addition, all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

During 2002, local government receipts in the amount of \$2,681, cigarette tax receipts in the amount of \$30, and rollback receipts in the amount of \$400 due to the General Fund, rollback receipts in the amount of \$299 due to the Cemetery Fund, and rollback receipts in the amount of \$667 due to the Dust Control Fund were incorrectly posted to the Gasoline Tax Fund.

During 2002, local government receipts in the amount of \$658 due to the General Fund were incorrectly posted to the Cemetery Fund in the amount of \$441 and to the Dust Control Fund in the amount of \$217.

Homestead and Rollback receipts in the amount of \$298 due to the Cemetery Fund and \$667 due to the Dust Control Fund were incorrectly posted to the General Fund during 2002. During 2003, Homestead and Rollback receipts in the amount of \$611 due to the Cemetery Fund and \$1,365 due to the Dust Control Fund were incorrectly posted to the General Fund.

Gasoline excise tax monies in the amount of \$1,490 during 2002 were incorrectly posted to the General Fund. During 2003, gasoline excise tax monies in the amount of \$4,210 were incorrectly posted to the Motor Vehicle License Tax Fund.

**KNOX TOWNSHIP  
VINTON COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2003 AND 2002  
(Continued)**

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

**FINDING NUMBER 2003-003 (Continued)**

**Noncompliance Citation/Material Weakness (Continued)**

**Ohio Rev. Code Sections 5705.14, 5705.15, and 5705.16 (Continued)**

During 2003, local government receipts in the amount of \$1,999 due to the General Fund were incorrectly posted to the Gasoline Tax Fund in the amount of \$602, to the Dust Control Fund in the amount of \$1,205, and to the Cemetery Fund in the amount of \$192.

On December 22, 2004, the Board of Trustees minutes stated that allowable Special Revenue Fund Type expenditures were posted to the General Fund in error during 2000, 2001, 2002, 2003 and 2004. The minutes also state the Board of Trustees approval to move all such expenditures from the General Fund to the corresponding Special Revenue Fund in which the expenditure should have been recorded.

During 2003 and 2002, the Township recorded expenditures totaling, \$12,407, in the General Fund that were allowable expenditures within the Special Revenue Fund Type.

The following table reflects the total net audit adjustments:

| Fund                      | Total Revenue<br>Adjustments | Total<br>Expenditure<br>Adjustments | Net<br>Adjustment  |
|---------------------------|------------------------------|-------------------------------------|--------------------|
| General                   | \$ (1,871)                   | \$ 12,407                           | \$ 10,536          |
| Special Revenue           |                              |                                     |                    |
| Motor Vehicle Licence Tax | (4,310)                      | (1,524)                             | (5,834)            |
| Gasoline Tax              | 4,329                        | (8,161)                             | (3,832)            |
| Cemetery                  | 575                          | (563)                               | 12                 |
| Dust Control              | 1,277                        | (2,159)                             | (882)              |
| Total Special Revenue     | <u>\$ 1,871</u>              | <u>\$ (12,407)</u>                  | <u>\$ (10,536)</u> |
| Total                     | <u>\$ -</u>                  | <u>\$ -</u>                         | <u>\$ -</u>        |

On December 28, 2004, the Township recorded these adjustments on the Township's books and these adjustments are reflected in the audited financial statements.

We recommend the Township Clerk review the Uniform Accounting Network (UAN) manual for guidance when posting receipts. In addition, we recommend the Board of Trustees establish procedures to review the accuracy of revenue posting to prevent future posting errors of this kind.

**KNOX TOWNSHIP  
VINTON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2003 AND 2002**

| Finding Number | Finding Summary   | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>  |
|----------------|---|------------------|--|
| 2001-40782-001 | Ohio Rev. Code Section 5705.41(D) – Not certifying all purchase commitments       | No               | Not Corrected; Refer to Finding 2003-001.  |
| 2001-40782-002 | Ohio Rev. Code Section 5705.41(B) – Expenditures exceeded appropriations          | No               | Not Corrected; Refer to Finding 2003-002.  |
| 2001-40782-003 | Ohio Rev. Code Section 5705.39 –Appropriations exceeded total estimated resources | No               | Partially Corrected; Referred to Management of the Township in a separate letter dated December 28, 2004.  |
| 2001-40782-004 | Finding for Adjustment  | Yes              | Corrected; Refer to Note 8 to the Audited Financial Statements.  |
| 2001-40782-005 | Finding for Adjustment  | Yes              | Corrected; Refer to Note 8 to the Audited Financial Statements.  |
| 2001-40782-006 | Finding for Adjustment  | Yes              | Corrected; Refer to Note 8 to the Audited Financial Statements.  |
| 2001-40782-007 | Ohio Rev. Code Section 5705.10 – Negative Fund Balance                            | No               | Partially Corrected; There were no negative fund balances noted during 2002 or 2003, however, after making the adjustments reflected in Note 8 to the Financial Statements and in Finding 2003-003 the Township had a negative fund balance in the Gasoline Tax Fund and Motor Vehicle License Tax (MVL) Fund at December 31, 2003. The negative fund balance in the MVL Fund was eliminated in 2004 and the negative fund balance in the Gasoline Tax Fund was eliminated by an advance in 2004, as stated in Note 9 to the audited Financial Statements. |



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**KNOX TOWNSHIP**

**VINTON 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  
MAY 5, 2005**