

**KNOX TOWNSHIP
VINTON COUNTY
Regular Audit
December 31, 2007 and 2006**



Mary Taylor, CPA

Auditor of State

Board of Trustees
Knox Township
75173 Lively Ridge Road
Albany, Ohio 45710

We have reviewed the *Independent Accountants' Report* of Knox Township, Vinton County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2006 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. Knox Township is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

April 22, 2008

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**KNOX TOWNSHIP
VINTON COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Independent Accountants' Report | 1 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007 | 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 | 4 |
| Notes to the Financial Statements | 5 |
| Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 11 |
| Schedule of Findings | 13 |
| Schedule of Prior Audit Findings | 16 |

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Perry & Associates
Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056

INDEPENDENT ACCOUNTANTS' REPORT

February 29, 2008

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

To the Board of Trustees:

We have audited the accompanying financial statements of **Knox Township, Vinton County, Ohio**, (the Township) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2007 and 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revisions require presenting entity wide statements and also to present it'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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since the Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2007 and 2006 or their changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Knox Township, Vinton County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the years ended December 31, 2007 and 2006. 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 February 29, 2008, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

**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, 2007**

| | <u>Governmental Fund Types</u> | | <u>Totals (Memorandum Only)</u> |
|--|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Local Taxes | \$ 7,946 | \$ 19,953 | \$ 27,899 |
| Intergovernmental | 26,134 | 98,363 | 124,497 |
| Earnings on Investments | 241 | 111 | 352 |
| Miscellaneous | - | 50 | 50 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Receipts | 34,321 | 118,477 | 152,798 |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 26,152 | - | 26,152 |
| Public Safety | 3,000 | 2,100 | 5,100 |
| Public Works | - | 94,215 | 94,215 |
| Health | - | 9,304 | 9,304 |
| Debt Service: | | | |
| Principal Retirement | - | 14,563 | 14,563 |
| Interest and Fiscal Charges | - | 1,472 | 1,472 |
| Capital Outlay | - | 1,720 | 1,720 |
| | <hr/> | <hr/> | <hr/> |
| Total Cash Disbursements | 29,152 | 123,374 | 152,526 |
| Total Cash Receipts Over/(Under) Disbursements | <hr/> | <hr/> | <hr/> |
| | 5,169 | (4,897) | 272 |
| Fund Cash Balances, January 1 | <hr/> | <hr/> | <hr/> |
| | 4,354 | 63,699 | 68,053 |
| Fund Cash Balances, December 31 | <hr/> | <hr/> | <hr/> |
| | \$ 9,523 | \$ 58,802 | \$ 68,325 |

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, 2006**

| | <u>Governmental Fund Types</u> | | <u>Totals (Memorandum Only)</u> |
|--|--------------------------------|----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | |
| Cash Receipts: | | | |
| Local Taxes | \$ 5,285 | \$ 9,911 | \$ 15,196 |
| Intergovernmental | 33,757 | 101,433 | 135,190 |
| Earnings on Investments | 198 | 91 | 289 |
| Miscellaneous | 40 | 40 | 80 |
| | <u>39,280</u> | <u>111,475</u> | <u>150,755</u> |
| Cash Disbursements: | | | |
| Current: | | | |
| General Government | 17,445 | - | 17,445 |
| Public Safety | 3,100 | - | 3,100 |
| Public Works | - | 65,550 | 65,550 |
| Health | - | 7,546 | 7,546 |
| Debt Service: | | | |
| Principal Retirement | - | 11,319 | 11,319 |
| Interest and Fiscal Charges | - | 961 | 961 |
| Capital Outlay | 39,137 | - | 39,137 |
| | <u>59,682</u> | <u>85,376</u> | <u>145,058</u> |
| Total Cash Disbursements | | | |
| | <u>59,682</u> | <u>85,376</u> | <u>145,058</u> |
| Total Cash Receipts Over/(Under) Disbursements | <u>(20,402)</u> | <u>26,099</u> | <u>5,697</u> |
| Other Financing Receipts and (Disbursements): | | | |
| Proceeds from Notes | 19,137 | - | 19,137 |
| | <u>19,137</u> | <u>-</u> | <u>19,137</u> |
| Total Other Financing Receipts/(Disbursements) | | | |
| | <u>19,137</u> | <u>-</u> | <u>19,137</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (1,265) | 26,099 | 24,834 |
| Fund Cash Balances, January 1 | <u>5,619</u> | <u>37,600</u> | <u>43,219</u> |
| Fund Cash Balances, December 31 | <u>\$ 4,354</u> | <u>\$ 63,699</u> | <u>\$ 68,053</u> |

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

**KNOX TOWNSHIP
VINTON COUNTY**

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

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. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services. The Township contracts with the Village of Zaleski to provide fire and emergency services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting 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 an interest-bearing checking account.

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 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 has the following significant Special Revenue Funds:

**KNOX TOWNSHIP
VINTON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Gasoline Tax Fund - This fund receives gasoline 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, function, and object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered 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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated in the subsequent year.

A summary of 2007 and 2006 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.

**KNOX TOWNSHIP
VINTON COUNTY**

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

| | | |
|-----------------|-----------|-----------|
| | 2007 | 2006 |
| Demand deposits | \$ 68,325 | \$ 68,053 |

Deposits are insured by the Federal Deposit Insurance Corporation.

3. BUDGETARY ACTIVITY

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

2007 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|----------|
| General | \$13,953 | \$34,321 | \$20,368 |
| Special Revenue | 116,385 | 118,477 | 2,092 |
| Total | \$130,338 | \$152,798 | \$22,460 |

2007 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|-----------|
| General | \$22,581 | \$29,152 | (\$6,571) |
| Special Revenue | 175,539 | 123,374 | 52,165 |
| Total | \$198,120 | \$152,526 | \$45,594 |

2006 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|----------|
| General | \$21,013 | \$58,417 | \$37,404 |
| Special Revenue | 102,810 | 111,475 | 8,665 |
| Total | \$123,823 | \$169,892 | \$46,069 |

2006 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|-----------------|----------------------------|---------------------------|------------|
| General | \$25,321 | \$59,682 | (\$34,361) |
| Special Revenue | 141,432 | 85,376 | 56,056 |
| Total | \$166,753 | \$145,058 | \$21,695 |

Contrary to Ohio Rev. Code Section 5705.41 (D), the certification of availability of unencumbered appropriations for expenditure was not obtained for 67% of expenditures tested during 2007 and 75% of expenditures testing during 2006.

**KNOX TOWNSHIP
VINTON COUNTY**

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

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio Rev. Code Section 5705.41 (B), the actual disbursements exceeded budgeted appropriations in the General Fund in 2006 and 2007.

4. DEBT

Debt outstanding at December 31, 2007 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|-----------------|------------------|----------------------|
| Promissory Note | \$ 15,450 | 4.75 % |

A promissory note was issued in 2002 in the amount of \$51,917 to finance the purchase of a tractor. The prior audit reflected an inaccurate balance due at December 31, 2005. The principal outstanding at December 31, 2005 was \$22,195. This note was paid in full during the audit period.

A promissory note was issued in 2006 in the amount of \$19,137 for the purchase of a truck. This note is collateralized solely by the truck. The Township makes monthly payments of \$363.29 on the note.

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

| Year ending <u>December 31:</u> | <u>Truck Note</u> |
|------------------------------------|-------------------|
| 2008 | 4,359 |
| 2009 | 4,359 |
| 2010 | 4,359 |
| 2011 | 3,997 |
| Total | <u>\$ 17,074</u> |

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.

**KNOX TOWNSHIP
VINTON COUNTY**

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

6. RETIREMENT SYSTEMS

The Township's elected officials and employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multi-employer plan. This plan provides retirement benefits, including post retirement 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 2007 and 2006, members of PERS contributed 9.5% (2007) and 9% (2006) of their gross salaries. The Township contributed an amount equal to 13.85% (2007) and 13.7% (2006) of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

7. RISK MANAGEMENT

Risk Pool Membership

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. Townships can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (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.

**KNOX TOWNSHIP
VINTON COUNTY**

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

7. RISK MANAGEMENT (Continued)

Property Coverage (Continued)

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. It provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop-loss is reached by payment of KNOX TOWNSHIP 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 township.

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> |

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 townships in the future, as of December 31, 2006 and 2005, respectively.

Perry & Associates
Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056

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

February 29, 2008

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

To the Board of Trustees:

We have audited the financial statements of **Knox Township, Vinton County, Ohio** (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated February 29, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions 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 considered significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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.

Internal Control Over Financial Reporting (Continued)

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-003.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe none of the significant deficiencies described above are material weaknesses.

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 two instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2007-002 and 2007-003.

This report is intended solely for the information and use of Township management and Board of Trustees and is not intended to be, and should not be used by anyone other than these specified parties.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

**KNOX TOWNSHIP
VINTON COUNTY**

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

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

FINDING NUMBER 2007-001

Significant Deficiency

Posting Receipts and Expenditures

Receipts and Expenditures should be posted to the fund and line item accounts as established by Ohio Administrative Code Section 117-7-01.

During 2006 and 2007, several receipts and expenditures were not posted into accurate revenue classifications based on the source of the receipt or expenditure. For example, various intergovernmental, tax and note proceed revenues were not posted into the correct receipt classification. In addition, the expenditures for the debt payments were posted to General Government and Public Works rather than Capital Outlay. We also noted a receipt posted to the Gas Fund that should have been posted to the General Fund. This resulted in several reclassification and adjusting entries being made to the financial statements.

We recommend the Clerk refer to Ohio Administrative Code Section 117-7-01 and/or the Ohio Township Handbook for guidance to determine the proper establishment of receipt and expenditure accounts and posting of receipts and expenditures.

FINDING NUMBER 2007-002

Noncompliance Citation/ Significant Deficiency

Ohio Revised Code § 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 (Clerk) 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 taxing authority (Board of Township Trustees) can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

**KNOX TOWNSHIP
VINTON COUNTY**

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

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

FINDING NUMBER 2007-002 (Continued)

Noncompliance Citation/ Significant Deficiency (Continued)

Ohio Revised Code § 5705.41(D)(1) (Continued)

Amounts of less than \$1,000 (which was increased to \$3,000 on April 7, 2003) 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 not exceeding \$5,000 against any specific line item account over a period not exceeding three months or running beyond the current 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. Effective September 26, 2003, certificates may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend beyond the end of the fiscal year. Blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.
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.

The Township did not properly certify the availability of funds prior to purchase commitment for 67% of the expenditures tested during 2007 and 75% of the expenditures tested during 2006 and there was no evidence that the Township followed the aforementioned exceptions.

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 Clerk certify that the funds are or will be available prior to an obligation being incurred by the Township. When prior certification is not possible, “then and now” certification should be used.

Management's Response – We did not receive a response from officials to this finding.

**KNOX TOWNSHIP
VINTON COUNTY**

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

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

FINDING NUMBER 2007-003

Ohio Rev. Code Section 5705.41 (B) states that no subdivision or taxing unit shall make any expenditure of money unless the same has been properly appropriated. Actual disbursements exceeded appropriations in the General Fund in 2006 and 2007.

We recommend the Township Clerk modify appropriations with the Board of Trustees and County Budget Commission before incurring obligations that would cause expenditures to exceed appropriations. The Township Clerk should deny any payments until the legislative authority has passed the necessary changes to the appropriation measure.

Management's Response – We did not receive a response from officials to this finding.

**KNOX TOWNSHIP
VINTON COUNTY**

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

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|---|
| 2005-001 | ORC § 5705.41 (B) – Expending money without the benefit of appropriations. | No | Repeated as Finding 2007-003 |
| 2005-002 | ORC § 5705.10 – Funds with negative balances. | Yes | Finding no longer valid |



Mary Taylor, CPA
Auditor of State

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 6, 2008**