



Mary Taylor, CPA
Auditor of State

**UNION TOWNSHIP
KNOX COUNTY**

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Mary Taylor, CPA
Auditor of State

Union Township
Knox County
P.O. Box 731
Danville, Ohio 43014

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 Township 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 20, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Union Township
Knox County
P.O. Box 731
Danville, Ohio 43014

To the Board of Trustees:

We have audited the accompanying financial statements of Union Township, Knox 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. The Township 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 § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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, 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 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 and reserves for encumbrances of Union Township, Knox County, Ohio, 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 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 August 20, 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.



Mary Taylor, CPA
Auditor of State

August 20, 2008

**UNION TOWNSHIP
KNOX 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>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Cash Receipts:				
Property and Other Local Taxes	\$ 24,614	\$ 17,572	\$ -	\$ 42,186
Licenss, Permits, and Fees	-	13,290	-	13,290
Intergovernmental	78,756	112,850	-	191,606
Earnings on Investments	432	463	6	901
Miscellaneous	3,606	7,966	-	11,572
	<u>107,408</u>	<u>152,141</u>	<u>6</u>	<u>259,555</u>
Total Cash Receipts				
	<u>107,408</u>	<u>152,141</u>	<u>6</u>	<u>259,555</u>
Cash Disbursements:				
Current:				
General Government	65,709	350	-	66,059
Public Works	381	111,066	-	111,447
Health	5,674	8,620	47	14,341
Conservation - Recreation	1,387	-	-	1,387
Capital Outlay	-	280	-	280
Debt Service:				
Redemption of Principal	4,000	-	-	4,000
Interest and Other Fiscal Charges	525	-	-	525
	<u>77,676</u>	<u>120,316</u>	<u>47</u>	<u>198,039</u>
Total Cash Disbursements				
	<u>77,676</u>	<u>120,316</u>	<u>47</u>	<u>198,039</u>
Total Receipts Over(Under) Disbursements	<u>29,732</u>	<u>31,825</u>	<u>(41)</u>	<u>61,516</u>
Other Financing Receipts / (Disbursements):				
Transfers-In	3,166	-	-	3,166
Transfers-Out	-	(3,166)	-	(3,166)
	<u>3,166</u>	<u>(3,166)</u>	<u>-</u>	<u>-</u>
Total Other Financing Receipts / (Disbursements)				
	<u>3,166</u>	<u>(3,166)</u>	<u>-</u>	<u>-</u>
Excess of Cash Receipts and Other Financing Receipts Over /(Under) Cash Disbursements and Other Financing Disbursements	<u>32,898</u>	<u>28,659</u>	<u>(41)</u>	<u>61,516</u>
Fund Cash Balances, January 1	<u>23,543</u>	<u>50,557</u>	<u>548</u>	<u>74,648</u>
Fund Cash Balances, December 31	<u>\$ 56,441</u>	<u>\$ 79,216</u>	<u>\$ 507</u>	<u>\$ 136,164</u>
Reserve for Encumbrances, December 31	<u>\$ 1</u>	<u>\$ 247</u>	<u>\$ -</u>	<u>\$ 248</u>

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

**UNION TOWNSHIP
KNOX 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>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Cash Receipts:				
Property and Other Local Taxes	\$ 37,343	\$ 17,683	\$ -	\$ 55,026
Licenses, Permits, and Fees	-	650	-	650
Intergovernmental	29,988	112,711	-	142,699
Earnings on Investments	574	196	3	773
Miscellaneous	8,003	372	-	8,375
	<u>75,908</u>	<u>131,612</u>	<u>3</u>	<u>207,523</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	67,675	-	-	67,675
Public Works	429	109,216	-	109,645
Health	1,343	5,330	-	6,673
Conservation - Recreation	1,595	-	-	1,595
Capital Outlay	7,500	-	-	7,500
Debt Service:				
Redemption of Principal	4,000	-	-	4,000
Interest and Other Fiscal Charges	525	-	-	525
	<u>83,067</u>	<u>114,546</u>	<u>-</u>	<u>197,613</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(7,159)</u>	<u>17,066</u>	<u>3</u>	<u>9,910</u>
Fund Cash Balances, January 1	<u>30,702</u>	<u>33,491</u>	<u>545</u>	<u>64,738</u>
Fund Cash Balances, December 31	<u>\$ 23,543</u>	<u>\$ 50,557</u>	<u>\$ 548</u>	<u>\$ 74,648</u>
Reserve for Encumbrances, December 31	<u>\$ 1</u>	<u>\$ 247</u>	<u>\$ -</u>	<u>\$ 248</u>

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

**UNION TOWNSHIP
KNOX COUNTY**

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

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 Union Township, Knox County, Ohio, (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 cemetery maintenance. The Township contracts with the Eastern Knox Joint Fire District to provide fire and emergency medical services.

The Township participates in one jointly governed organization and the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Notes 7 and 8 to the financial statements provides additional information for these entities.

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

The Township maintains two demand deposit accounts.

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 (other than from private-purpose trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Fund:

**UNION TOWNSHIP
KNOX 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 to pay for constructing, maintaining, and repairing Township roads.

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 significant Permanent Fund:

Mullet Cemetery Endowment Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's 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 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 unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

Management has included audit adjustments in the accompanying budgetary presentations (Note #3) for material items that should have been included in the budgetary totals. Appropriations exceeded estimated resources in the Road and Bridge Fund.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

**UNION TOWNSHIP
KNOX COUNTY**

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

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

	2007	2006
Demand deposits	\$136,164	\$74,648

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

3. Budgetary Activity

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

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$91,904	\$110,574	\$18,670
Special Revenue	136,775	152,141	15,366
Permanent	0	6	6
Total	\$228,679	\$262,721	\$34,042

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$105,179	\$77,677	\$27,502
Special Revenue	197,556	123,729	73,827
Permanent	47	47	0
Total	\$302,782	\$201,453	\$101,329

**UNION TOWNSHIP
KNOX COUNTY**

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

3. Budgetary Activity (Continued)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$71,135	\$75,908	\$4,773
Special Revenue	115,217	131,612	16,395
Permanent	0	3	3
Total	\$186,352	\$207,523	\$21,171

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$98,475	\$83,068	\$15,407
Special Revenue	152,025	114,793	37,232
Permanent	0	0	0
Total	\$250,500	\$197,861	\$52,639

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.

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.

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
General Obligation Notes	\$4,000	4.25%

In 2003, general obligation notes were issued to finance the purchase of a new backhoe. The notes will be repaid in annual installments of \$4,525, including interest. These notes are fully collateralized by the Township's taxing authority.

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

	General Obligation Notes - Backhoe
Year ending December 31: 2008	\$4,525

**UNION TOWNSHIP
KNOX COUNTY**

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

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OPERS members contributed 9.5% and 9%, respectively, of their gross salaries. The Township contributed an amount equaling 13.85% and 13.7% of participants' gross salaries for 2007 and 2006 respectively. The Township has paid all contributions required through December 31, 2007.

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. 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.

If losses exhaust PEP'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 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

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.

**UNION TOWNSHIP
KNOX COUNTY**

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

7. Risk Management (Continued)

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 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 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Assets	\$43,210,703	\$42,042,275
Liabilities	<u>(13,357,837)</u>	<u>(12,120,661)</u>
Net Assets	<u>\$29,852,866</u>	<u>\$29,921,614</u>

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, 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 \$3,808. 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.

**UNION TOWNSHIP
KNOX COUNTY**

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

7. Risk Management (Continued)

<u>Contributions to OTARMA</u>	
2005	\$4,117
2006	\$4,227
2007	\$4,051

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they provide written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital 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. Jointly Governed Organizations

The Eastern Knox County Joint Fire District (The District) is a jointly governed organization pursuant to Ohio Revised Code Section 505.371. The District was formed in 2001 and consists of Brown, Butler, Harrison, Howard, Jefferson and Union Townships and the Villages of Brinkhaven and Danville. The Board consists of a trustee from each township and village and an at-large member appointed by the vote of the District Board. Revenues are generated from a five mil operating levy.

9. Subsequent Event Disclosure

In July 2008, the Township secured a \$60,000 loan with Killbuck Savings Bank Co. for seven years at 4.0%. The Township plans to purchase a new dump truck with the loan proceeds.

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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*

Union Township
Knox County
P.O. Box 731
Danville, Ohio 43014

To the Township Board of Trustees:

We have audited the financial statements of Union Township, Knox County, Ohio, (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated August 20, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. 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 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 certain deficiencies in internal control over financial reporting that we consider 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.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-002, 2007-003 and 2007-005.

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 the significant deficiencies described above are also 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 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 2007-001 through 2007-004 and 2007-006.

We also noted a certain noncompliance or other matter not requiring inclusion in this report that we reported to the Township's management in a separate letter dated August 20, 2008

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 the management and the Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 20, 2008

UNION TOWNSHIP
KNOX 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

Certification of Funds – Noncompliance

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 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. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due therein.

There are several exceptions to the standard requirement stated above that the fiscal officer 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 fiscal officer 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 – The fiscal officer 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.

The Fiscal Officer did not properly certify the availability of funds prior to purchase commitment for forty-two percent (42%) of the expenditures tested and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-001 (Continued)

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

Official's Response:

The Township will monitor more closely the dates on the POs and use prior certification when feasible. "Then and Now" certificates will be used where appropriate.

FINDING NUMBER 2007-002

Special Revenue Fund Expenditures - Noncompliance and Significant Deficiency/Material Weakness

Ohio Revised Code § 5735.27(A)(5)(d) provides, in part, that gasoline tax receipts may be expended by a township only for the purposes of planning, constructing, maintaining, widening, and reconstructing the public roads and highways within the township.

Ohio Revised Code § 517.08 generally provides, in part, that proceeds from the sale of cemetery lots shall be expended by a township only for the purposes of maintaining, improving, beautifying, and embellishing the grounds.

Additionally, **Ohio Revised Code § 5705.10(H)** states money paid into any fund shall be used only for the purpose for which such fund is established.

During fiscal year 2006, the Township Fiscal Officer paid invoices of \$1,200 from the Motor Vehicle License Tax Fund, \$1,680 from the Gasoline Tax Fund, \$480 from the Road and Bridge Tax Fund and \$230 from the Permissive Motor Vehicle License Tax Fun to pay non-employee compensation for services related to Cemetery and Township Hall lawn mowing.

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-002 (Continued)

Special Revenue Fund Expenditures - Noncompliance and Significant Deficiency/Material Weakness (Continued)

The use of the Township's Motor Vehicle License Tax funds, Gasoline Tax funds, Road and Bridge Tax funds and Permissive Motor Vehicle License Tax funds to pay the costs associated with lawn mowing services for a cemetery or township hall is not a permissible expenditure. Adjustments were made to the Township's accounting system to properly report these expenditures in the Cemetery Fund and are reflected in the financial statements.

Also, in fiscal years 2007 and 2006, the Township Fiscal Officer paid invoices of \$240 and \$125, respectively, from the Cemetery Fund for Township Hall lawn mowing.

The use of the Township's Cemetery funds to pay the costs associated with lawn mowing services for the Township Hall is not a permissible expenditure. Adjustments were made to the Township's accounting system to properly report the expenditures in the General Fund and are reflected in the financial statements.

We recommend the Township's Fiscal Officer take steps to ensure the accurate posting of all transactions to the ledgers. Receipts should be posted in accordance with requirements noted above and posting guidelines established in the Uniform Accounting Network line item descriptions. By exercising accuracy in recording financial activity, the Township can reduce posting errors and increase the reliability of the financial data throughout the year.

We also recommend the Township implement additional procedures over the completeness and accuracy of financial information reported within the annual financial report. Such procedures may include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

Official's Response:

The Fiscal Officer will take the necessary steps to correct and ensure that invoices are paid from the correct funds.

FINDING NUMBER 2007-003

Permissive Motor Vehicle License Tax – Noncompliance and Significant Deficiency/Material Weakness

Ohio Const. Art. XII, Section 5a states that no monies derived from fees, excises, or license taxes relating to registration, operation, or use of vehicles on public highway, or to fuels used for propelling such vehicles, shall be expended for other than costs of administering such laws, statutory refunds and adjustments provided therein, payment of highway obligations, costs for construction, reconstruction, maintenance and repair of public highways and bridges and other statutory highway purposes, expense of state enforcement of traffic laws, and expenditures authorized for hospitalization of indigent persons injured in motor vehicle accidents on the public highways.

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-003 (Continued)

Permissive Motor Vehicle License Tax – Noncompliance and Significant Deficiency/Material Weakness (Continued)

Additionally, **Ohio Revised Code § 5705.10** states, in part, that all revenue derived from the general levy for current expense within the ten-mill limitation, from any general levy for current expense authorized by vote in excess of the ten-mill limitation, and from sources other than the general property tax, unless its use for a particular purpose is prescribed by law, shall be paid into the general fund. In addition, all revenue derived from a special levy shall be credited to a special fund for the purpose for which the levy was made.

In 2006, the Township's Fiscal Officer receipted \$3,455 of Permissive Motor Vehicle License Taxes into the Motor Vehicle License Tax Fund in error.

Monies received from Permissive Motor Vehicle License Tax fees should be recorded into the Permissive Motor Vehicle License Tax Fund.

Additionally, in 2007, Homestead and Rollback funds were posted in error to the Road and Bridge Fund instead of the General Fund in the amounts of \$4,107 and in 2006, Homestead and Rollback funds were posted in error to the General Fund instead of the Road and Bridge fund in the amount of \$987.

Adjustments were made to the Township's accounting system to properly record the above errors in receipt postings and are reflected in the financial statements.

We recommend the Township's Fiscal Officer take steps to ensure the accurate posting of all transactions to the ledgers. Receipts should be posted in accordance with requirements noted above and posting guidelines established in the Uniform Accounting Network line item descriptions. By exercising accuracy in recording financial activity, the Township can reduce posting errors and increase the reliability of the financial data throughout the year.

We also recommend the Township implement additional procedures over the completeness and accuracy of financial information reported within the annual financial report. Such procedures may include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

Official's Response:

The Fiscal Officer will take the necessary steps to correct and ensure that receipts are posted to the correct funds and will refer to the Township Handbook if necessary.

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2007-004

Life Insurance Premiums – Finding For Recovery

We are proposing a Finding for Recovery for the following reason:

Ohio Rev. Code Section 505.602 states a board of township trustees may procure and pay all or any part of the cost of group life insurance to insure the lives of officers and full-time employees of the Township. The amount of group life insurance coverage provided by the board to insure the lives of officers of the Township shall not exceed fifty thousand dollars per officer. It does not authorize a board of Township Trustees to procure and pay for or reimburse officers or employees for life insurance premiums.

The Township reimbursed the following Township Officers for life insurance premiums. There is no statutory authority permitting such reimbursement.

Official	Individual Life Insurance Premium Payments
Laura Wills, Fiscal Officer	Fiscal Year 2007 - \$ 240
Tom Ridgeway, Township Trustee	Fiscal Year 2007 - \$ 384 Fiscal Year 2006 - \$ 384
	Total - \$ 768

The Township mistakenly believed that it could reimburse its officers for the life insurance premiums. As stated above, the Township may procure its own Township plan for group life insurance; however it has no authority to reimburse officers or employees for this type of insurance.

In accordance with the forgoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Laura Wills, Fiscal Officer, Tom Ridgeway, Township Trustee, and Ohio Township Risk Management Authority, their bonding company, in the corresponding amounts listed above, and in favor of the Township's General Fund. Each is primarily liable for the amount they received improperly.

Additionally, under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att'y Gen. No. 80-074; Ohio Rev. Code Section 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St. 3d 228. Public officials controlling public funds or property are secondarily liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen. Public officials will be liable if and to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att'y Gen. No. 80-074.

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

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

FINDING NUMBER 2007-004 (Continued)

Life Insurance Premiums – Finding For Recovery (Continued)

Therefore, because all Township Officers signed the improper payments, the following are jointly and severally liable for the entire amount of \$1,008: Laura Wills, Fiscal Officer, Tom Ridgeway, Trustee, Theodore Bratton, Trustee, Clem Strausbaugh, Trustee, and their bonding company, Ohio Township Risk Management Authority. This recovery is in favor of the Township’s General Fund.

Theodore Bratton, Laura Willis and Clem Strausbaugh shall be secondarily liable for such illegal expenditures to the extent that recovery or restitution is not obtained from Laura Wills, Township Fiscal Officer and Tom Ridgeway, Township Trustee.

Laura Wills repaid \$240 and was receipted into the Township’s General Fund October 10, 2008.

Official’s Response:

The Township believes this a result of a misunderstanding of the requirements and subsequent procurement and payment for life insurance coverage. The Township will review the Ohio Revised Code as it relates to procuring and paying Official’s life insurance coverage.

FINDING NUMBER 2007-005

Financial Statement Presentation – Significant Deficiency/Material Weakness

A monitoring system should be in place to prevent or detect material misstatements for the accurate presentation of the Township’s financial statements.

The Fiscal Officer did not always accurately post receipts and disbursements to the Township’s accounting system and financial statements. The following posting errors were noted in the General Fund:

Posting Error	2006	2007
Principal debt expenditures posted as other financing sources	\$4,000	\$4,000
Interest expenditures posted as advances out	525	525
General government expenditures posted as advances-out	145	
Capital Outlay expenditures posted as Other Financing Uses	7,500	
Health expenditures posted as advances-out	4,230	
Intergovernmental receipts posted as miscellaneous receipts	4,467	6,445

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

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

FINDING NUMBER 2007-005 (Continued)

Financial Statement Presentation – Significant Deficiency/Material Weakness (Continued)

In addition, budgetary receipts and disbursements were not always posted to the accounting system to correspond with amounts approved by the Board of Trustees and filed with the County Auditor resulting in adjustments to the budgetary schedules in the footnotes to increase / decrease estimated receipts and appropriations as follows:

Fund	2006		2007	
	Estimated Receipts	Appropriations	Estimated Receipts	Appropriations
General	(\$3,225)	\$6,000	\$16,000	\$6,000
Cemetery	835		7,300	
Gasoline	9,343	200		246
Road and Bridge	5,555			(4,000)
Permanent		47		(46)
Motor Vehicle License	1,050			
Permissive Motor Vehicle License	320			

Not posting receipts, disbursements and budgetary amounts accurately to the ledgers resulted in the financial statements requiring numerous audit reclassification and adjusting entries; furthermore, inaccurate accounting records could make it difficult for the Board of Trustees to effectively manage and budget for the Township's activities, including budgetary totals posted to the Township's ledgers.

We recommend the Township's Fiscal Officer take steps to ensure the accurate posting of all transactions to the ledgers. Cash receipts and disbursements should be posted in accordance with procedures and posting guidelines established in the Uniform Accounting Network line item descriptions and AOS Bulletins. By exercising accuracy in recording financial activity, the Township can reduce posting errors and increase the reliability of the financial data throughout the year. Additionally, budget numbers posted to the Township's ledgers should reflect budget numbers filed with the County Budget Commission.

We also recommend the Township implement additional procedures over the completeness and accuracy of financial information reported within the annual financial report. Such procedures may include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

The Township's financial statements and budgetary schedules have adjusted to accurately reflect the proper line item classifications and budget totals.

Official's Response:

The Township will try to do a better job of posting receipts to the appropriate line items and will more closely monitor and modify the budget in the UAN system to match the amounts on file with the Knox Co. Auditor.

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 AND 2006
(Continued)**

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

FINDING NUMBER 2007-006

Appropriations Exceeding Estimated Resources - Noncompliance

Ohio Revised Code Section 5705.39 states, in part, that the total appropriations from each fund shall not exceed the total of the estimated resources available for expenditures there from, as certified by the budget commission, or in case of appeal, by the board of tax appeals. As of December 31, 2007 and December 31, 2006, the Township had appropriations exceeding estimated resources available for expenditures in the following fund:

Fiscal Year 2007

<u>Fund</u>	<u>Total Certified Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Road & Bridge	\$ 24,342	\$ 31,040	\$ (6,698)

Fiscal Year 2006

<u>Fund</u>	<u>Total Certified Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Road & Bridge	\$ 15,190	\$ 18,540	\$ (3,350)

We recommend the Fiscal Officer periodically review the Amended Certificates of Estimated Resources and Supplemental Appropriation Measures to ensure that total appropriations from each fund do not exceed the total of the estimated resources available for expenditures.

Official's Response:

This appears to be due to a fund balance adjustment not being made in 2005. Once the fund balance adjustments are made correctly, going forward, the Township will ensure that appropriations do not exceed the estimated resources.

**UNION TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND DECEMBER 31, 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	Prior Certification	No	Reissued, 2007-001
2005-002	Employee Fringe Benefits	Yes	Corrected
2005-003	Findings For Recovery – Insurance Reimbursement	No	Reissued, 2007-004, however previous findings for recovery were repaid.



Mary Taylor, CPA
Auditor of State

UNION TOWNSHIP

KNOX 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 2, 2008**