



**JACKSON TOWNSHIP  
KNOX COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2006-2005**



**Mary Taylor, CPA**  
Auditor of State



JACKSON TOWNSHIP  
KNOX COUNTY

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Mary Taylor, CPA  
Auditor of State

Jackson Township  
Knox County  
28463 McKee Road  
Frazeyburg, Ohio 43822

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 27, 2007

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# Mary Taylor, CPA

## Auditor of State

### INDEPENDENT ACCOUNTANTS' REPORT

Jackson Township  
Knox County  
28463 McKee Road  
Frazeyburg, Ohio 43822

To the Board of Trustees:

We have audited the accompanying financial statements of Jackson Township, Knox County, Ohio, (the Township) as of and for the years ended December 31, 2006 and 2005. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. 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, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Township as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of Jackson Township, Knox County, Ohio, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Township has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2007, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Mary Taylor, CPA**  
Auditor of State

August 27, 2007



**JACKSON 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>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 15,713	\$ 24,818	\$ 40,531
Intergovernmental	30,497	106,367	136,864
Earnings on Investments	189	256	445
Miscellaneous	2	2,012	2,014
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	46,401	133,453	179,854
<b>Cash Disbursements:</b>			
Current:			
General Government	30,064	-	30,064
Public Works	3,440	107,818	111,258
Capital Outlay	312	48	360
Debt Service:			
Redemption of Principal	1,250	3,750	5,000
Interest and Other Fiscal Charges	390	1,230	1,620
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	35,456	112,846	148,302
Total Receipts Over Disbursements	10,945	20,607	31,552
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>
	10,379	64,298	74,677
<b>Fund Cash Balances, December 31</b>	<b><u>\$ 21,324</u></b>	<b><u>\$ 84,905</u></b>	<b><u>\$ 106,229</u></b>

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

**JACKSON 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, 2005**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property and Other Local Taxes	\$ 14,748	\$ 24,345	\$ 39,093
Intergovernmental	27,640	116,909	144,549
Earnings on Investments	100	253	353
Miscellaneous	2	-	2
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	42,490	141,507	183,997
	<hr/>	<hr/>	<hr/>
<b>Cash Disbursements:</b>			
Current:			
General Government	31,370	-	31,370
Public Works	3,612	140,090	143,702
Capital Outlay	-	46	46
Debt Service:			
Redemption of Principal	1,250	3,750	5,000
Interest and Other Fiscal Charges	455	1,430	1,885
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	36,687	145,316	182,003
	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	5,803	(3,809)	1,994
	<hr/>	<hr/>	<hr/>
<b>Other Financing Receipts / (Disbursements):</b>			
Transfers-In	-	31,416	31,416
Transfers-Out	-	(31,416)	(31,416)
	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	-	-	-
	<hr/>	<hr/>	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	5,803	(3,809)	1,994
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, January 1	4,576	68,107	72,683
	<hr/>	<hr/>	<hr/>
<b>Fund Cash Balances, December 31</b>	<b><u>\$ 10,379</u></b>	<b><u>\$ 64,298</u></b>	<b><u>\$ 74,677</u></b>

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

**JACKSON TOWNSHIP  
KNOX COUNTY**

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

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of Jackson 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. The Township contracts with the Bladensburg Fire District to provide fire services and ambulance services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA) public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

OTARMA is 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).

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 a demand deposit 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 reports all financial resources except those required to be accounted for in another fund.

**JACKSON TOWNSHIP  
KNOX COUNTY**

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

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

**D. Fund Accounting (Continued)**

**2. Special Revenue Funds**

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 Funds:

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

Gasoline Tax Fund - This fund receives gasoline tax money to pay 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 or 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. Appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

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

A summary of 2006 and 2005 budgetary activity appears in Note 3.

**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.

**JACKSON TOWNSHIP  
KNOX COUNTY**

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

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

**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 and investments. The carrying amount of cash at December 31 was as follows:

	2006	2005
Demand deposits	\$106,229	\$74,677

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

**3. BUDGETARY ACTIVITY**

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

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$36,525	\$46,401	\$9,876
Special Revenue	119,136	133,453	14,317
Total	\$155,661	\$179,854	\$24,193

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$46,903	\$35,456	\$11,447
Special Revenue	183,434	112,846	70,588
Total	\$230,337	\$148,302	\$82,035

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$43,593	\$42,490	(\$1,103)
Special Revenue	141,234	172,923	31,689
Total	\$184,827	\$215,413	\$30,586

**JACKSON TOWNSHIP  
KNOX COUNTY**

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

**3. BUDGETARY ACTIVITY (Continued)**

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$48,168	\$36,687	\$11,481
Special Revenue	209,343	176,732	32,611
Total	\$257,511	\$213,419	\$44,092

**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.

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

**5. DEBT**

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Notes - Land & Building	\$27,500	5.20%

The notes were issued in 2002 to finance the purchase of land and a building to be used for various Township purposes. The notes are collateralized by the full faith and credit of the Township.

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

Year ending December 31:	Notes
2007	\$6,365
2008	6,105
2009	5,845
2010	5,585
2011	5,325
2012	2,565
Total	\$31,790

**JACKSON TOWNSHIP  
KNOX COUNTY**

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

**6. RETIREMENT SYSTEM**

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

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

**7. RISK MANAGEMENT**

**Risk Pool Membership**

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

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.

**JACKSON TOWNSHIP  
KNOX COUNTY**

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

**7. RISK MANAGEMENT (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. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$7,070. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.



**JACKSON TOWNSHIP  
KNOX COUNTY**

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

**7. RISK MANAGEMENT (Continued)**

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.

<b><u>Contributions to OTARMA</u></b>	
2005	\$3,529
2006	\$3,536

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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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

Jackson Township  
Knox County  
28463 McKee Road  
Frazeesburg, Ohio 43822

To the Township Board of Trustees:

We have audited the financial statements of Jackson Township, Knox County, Ohio, (the Township) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated August 27, 2007 wherein we noted the Township prepared its financial statements using 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.

88 E. Broad St. / Tenth Floor / Columbus, OH 43215-3506  
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 through 2006-003.

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. However, of the significant deficiencies described above, we believe finding numbers 2006-001 and 2006-002 are also material weaknesses.

We also noted a certain internal control matter that we reported to the Township's management in a separate letter dated August 27, 2007.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items: 2006-002 and 2006-003.

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 27, 2007.

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's response 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 27, 2007

JACKSON TOWNSHIP  
KNOX COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

**Significant Deficiency/Material Weakness**

**Financial Statement Presentation**

A monitoring system by the Fiscal Officer 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 accurately post receipts to the Township's accounting system. The following posting error was noted:

Errors noted on the *Statement of Receipts, Disbursements, and Changes In Fund Balance*

- Federal Emergency Management Act (FEMA) receipts in the amount of \$31,416 were not posted in accordance with Auditor of State Bulletin 98-013.

Auditor of State Bulletin 98-013 addresses several ways to account for FEMA monies, and to reimburse the funds from which the payment was previously made. It appears the Township Fiscal Officer was trying to take the approach that creates a bill from the fund that made the original payment to the FEMA fund. However, as suggested by the Audit Bulletin, there was no bill that identified the invoices that were previously paid, nor did it show the portions that were being charged to the FEMA fund.

Not posting revenues accurately to the ledgers resulted in the financial statements requiring numerous audit reclassification entries.

We recommend the Township's Fiscal Officer take steps to ensure the accurate posting of all cash transactions. Cash receipts should be posted in accordance with procedures and posting guidelines outlined in Auditor of State Accounting Bulletins and established in the Uniform Accounting Network receipt line item descriptions. By exercising accuracy in recording financial activity, the Township can reduce posting errors and increase the reliability of financial data throughout the year.

**Officials' Response:**

This Fiscal Officer will review FEMA postings in the future to ensure proper reporting requirements are met.

FINDING NUMBER 2006-002

**Non-compliance Finding/Material Weakness/Significant Deficiency**

**Certification of Funds**

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

JACKSON TOWNSHIP  
KNOX COUNTY

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

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

FINDING NUMBER 2006-002 (Continued)

Non-compliance Finding/Material Weakness/Significant Deficiency (Continued)

Certification of Funds (Continued)

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

**1. "Then and Now" Certificate** – If the Fiscal Officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Township's Fiscal Officer can authorize the drawing of a warrant for the payment of the amount due. The Township Trustees have 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 Trustees.

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

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

Thirty-Five percent of the transactions tested were not certified by the Fiscal Officer at the time the commitment was incurred 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.

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.

**JACKSON TOWNSHIP  
KNOX COUNTY**

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

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

**FINDING NUMBER 2006-002 (Continued)**

**Non-compliance Finding/Material Weakness/Significant Deficiency (Continued)**

**Certification of Funds (Continued)**

We recommend the Township's 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.

**Officials' Response:**

The Fiscal Officer is still working to reduce the amount of not properly certified transactions.

**FINDING NUMBER 2006-003**

**Finding For Recovery Repaid under Audit- Non-compliance Finding/Significant Deficiency**

**Ohio Revised Code Section 505.601** states in part...If a board of township trustees does not procure an insurance policy or group health care services as provided in section 505.60 of the Revised Code, the Board of Township Trustees may reimburse any township officer or employee for each out-of-pocket premium that the officer or employee incurs for insurance policies described in division (A) of section 505.60 of the Revised Code that the officer or employee otherwise obtains.

However, the Township must meet the following three conditions:

1. The Board of Township Trustees adopts a resolution stating that the township has chosen not to procure a health care plan and has chosen instead to reimburse its officers and employees for each out-of-pocket premium,
2. The resolution provides for a uniform maximum monthly or yearly payment amount for each officer and employee,
3. The resolution states the specific benefits, pursuant to Ohio Rev. Code Section 505.60(A), that will be reimbursed.

Beginning in August 2005 the Township began to reimburse Roadman Tim Scott the Board approved maximum monthly rate of \$300 for fiscal year 2005 and \$350 for fiscal year 2006, rather than the actual out-of-pocket premium prescribed in Ohio Revised Code Section 505.601.

	<u>Maximum Amount Approved</u>	<u>Out of Pocket Premium Paid</u>	<u>Amount Reimbursed</u>	<u>Variance</u>
2006	\$4,200	\$3,276.24	\$3,600	\$323.76
2005	\$3,600	\$3,199.12	\$3,421	<u>\$221.88</u>
TOTAL				<u>\$545.64</u>

**JACKSON TOWNSHIP  
KNOX COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2006-003 (Continued)**

**Finding For Recovery Repaid under Audit- Non-compliance Finding/Significant Deficiency  
(Continued)**

This resulted in an over reimbursement to Roadman Tim Scott of \$545.64.

In accordance with the foregoing facts and pursuant to Ohio Revised Code Section 117.28, a finding for recovery for public monies illegally expended is hereby issued against: Tim Scott - Road Man; Carol Heisterman - Fiscal Officer; Dennis Claggett, James Dugan, and Larry Morningstar – Trustees; and the Ohio Township Authority Risk Management Association, the elected official's bonding company, jointly and severally, for the amount listed above and in favor of the Township's Road and Bridge fund.

We recommend the Township implement procedures to monitor the payment of such expenditures and that all documentation related to insurance reimbursements be maintained by the Fiscal Officer.

This finding was repaid during the audit and credited to the Township's Road and Bridge Fund.

**Officials' Response:**

The Fiscal Officer will review the Ohio Rev. Code requirements to ensure the Township is in compliance in the future.



JACKSON TOWNSHIP  
KNOX COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2004-001	Certification of Funds	No	Not corrected – repeated as finding 2006-002





**Mary Taylor, CPA**  
Auditor of State

**JACKSON 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  
NOVEMBER 27, 2007**