



**RICHLAND TOWNSHIP
HOLMES COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006



Mary Taylor, CPA
Auditor of State

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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Mary Taylor, CPA
Auditor of State

Richland Township
Holmes County
2255 Township Road 33
Killbuck, Ohio 44637

To the Board of Trustees:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Mary Taylor, CPA
Auditor of State

October 3, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Richland Township
Holmes County
2255 Township Road 33
Killbuck, Ohio 44637

To the Board of Trustees:

We have audited the accompanying financial statements of Richland Township, Holmes 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 Richland Township, Holmes County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The 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 October 3, 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

October 3, 2008

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$10,449	\$83,801		\$94,250
Licenses, Permits, and Fees		11,657		11,657
Intergovernmental	26,405	230,886		257,291
Earnings on Investments	508	108		616
Miscellaneous	1,638	8,296		9,934
Total Cash Receipts	<u>39,000</u>	<u>334,748</u>	<u>0</u>	<u>373,748</u>
Cash Disbursements:				
Current:				
General Government	28,263	700		28,963
Public Safety		167,154		167,154
Public Works	1,080	110,910		111,990
Health	9,177			9,177
Human Services		23,696		23,696
Capital Outlay		11,095	265	11,360
Debt Service:				
Redemption of Principal		48,006		48,006
Interest and Other Fiscal Charges		7,968		7,968
Total Cash Disbursements	<u>38,520</u>	<u>369,529</u>	<u>265</u>	<u>408,314</u>
Total Receipts Over/(Under) Disbursements	<u>480</u>	<u>(34,781)</u>	<u>(265)</u>	<u>(34,566)</u>
Other Financing Receipts/(Disbursements):				
Sale of Fixed Assets			2,243	2,243
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	480	(34,781)	1,978	(32,323)
Fund Cash Balances, January 1	<u>7,427</u>	<u>98,016</u>	<u>(1,774)</u>	<u>103,669</u>
Fund Cash Balances, December 31	<u>\$7,907</u>	<u>\$63,235</u>	<u>\$204</u>	<u>\$71,346</u>
Reserve for Encumbrances, December 31	<u>\$329</u>	<u>\$5,182</u>	<u>\$0</u>	<u>\$5,511</u>

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

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$10,334	\$82,850		\$93,184
Licenses, Permits, and Fees		4,033		4,033
Intergovernmental	23,674	119,290		142,964
Earnings on Investments	786	122		908
Miscellaneous	975	2,665	\$1,350	4,990
Total Cash Receipts	<u>35,769</u>	<u>208,960</u>	<u>1,350</u>	<u>246,079</u>
Cash Disbursements:				
Current:				
General Government	34,232	398		34,630
Public Safety		40,378		40,378
Public Works	227	103,247		103,474
Health	7,682			7,682
Human Services		20,779		20,779
Capital Outlay		84,470	456	84,926
Debt Service:				
Redemption of Principal		17,286		17,286
Interest and Other Fiscal Charges		3,433		3,433
Total Cash Disbursements	<u>42,141</u>	<u>269,991</u>	<u>456</u>	<u>312,588</u>
Total Receipts Over/(Under) Disbursements	<u>(6,372)</u>	<u>(61,031)</u>	<u>894</u>	<u>(66,509)</u>
Other Financing Disbursements:				
Other Financing Uses	<u>(736)</u>			<u>(736)</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(7,108)	(61,031)	894	(67,245)
Fund Cash Balances, January 1	<u>14,535</u>	<u>159,047</u>	<u>(2,668)</u>	<u>170,914</u>
Fund Cash Balances, December 31	<u>\$7,427</u>	<u>\$98,016</u>	<u>(\$1,774)</u>	<u>\$103,669</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$8</u>	<u>\$0</u>	<u>\$8</u>

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

**RICHLAND TOWNSHIP
HOLMES 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 Richland Township, Holmes County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance, fire protection and emergency medical services.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Township's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

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.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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

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 Fund:

Gasoline Tax Fund - This fund receives gasoline tax money to pay for constructing, maintaining, and repairing Township roads.

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

Fire District Fund - This fund receives property tax money for providing fire protection to Township residents.

3. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Township had the following significant Capital Project Fund

Miscellaneous Capital Projects Fund- This fund receives rental receipts to pay for the acquisition maintenance, and repair of Township property.

E. Budgetary Process

The Ohio Revised Code requires that each fund to 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. 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.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

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.

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

	<u>2007</u>	<u>2006</u>
Demand deposits	\$61,006	\$82,895
Certificates of deposit	10,340	20,774
Total deposits	<u>71,346</u>	<u>103,669</u>

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation; or (2) collateralized by securities specifically pledged by the financial institution to the Township.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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

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	\$33,450	\$39,000	\$5,550
Special Revenue	191,770	334,748	142,978
Capital Projects	0	2,243	2,243
Total	\$225,220	\$375,991	\$150,771

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$43,089	\$38,849	\$4,240
Special Revenue	281,413	374,711	(93,298)
Capital Projects	1,000	265	735
Total	\$325,502	\$413,825	(\$88,323)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$32,690	\$35,769	\$3,079
Special Revenue	190,135	208,960	18,825
Capital Projects	3,287	1,350	(1,937)
Total	\$226,112	\$246,079	\$19,967

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$47,154	\$42,877	\$4,277
Special Revenue	342,481	269,999	72,482
Capital Projects	3,419	456	2,963
Total	\$393,054	\$313,332	\$79,722

4. Noncompliance

Contrary to Auditor of State Bulletin 97-03, the Township made advances between funds that did not meet the purpose for which funds may be used. These adjustments caused a negative balance at December 31, 2006 in the Motor Vehicle License (MVL) Tax Fund (\$1,698), contrary to Ohio Revised Code Section 5705.10.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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

4. Noncompliance (Continued)

Contrary to Ohio Rev. Code Section 5705.36(A)(2), the Township did not file requests for amendments to estimated resources for 2007 and 2006 with the County Auditor until the following years.

Contrary to Ohio Rev. Code Section 5705.39, the appropriations exceeded estimated resources at December 31, 2007 in the General Fund (\$1,000) and at December 31, 2006 in the Miscellaneous Special Revenue Fund (\$13,323). The Township did not obtain certificates from the County Auditor that appropriations from each fund do not exceed the total Amended Official Estimate of Resources.

Contrary to Ohio Rev. Code Section 5705.41(B), the Township had expenditures exceeding appropriations in the Special Revenue Fund – Fire Department Fund (\$124,076) in 2007 and the Special Revenue – Gasoline Fund (\$7,038) in 2006.

Contrary to Ohio Rev. Code Section 5705.41(D), the Township's Fiscal Officer did not always certify all purchases prior to incurring the commitments.

Contrary to Ohio Rev. Code Section 5705.10, the Township posted Fire/EMS levy monies and related intergovernmental receipts and debt service payments to the Bond Retirement Fund instead of the Fire District Fund.

5. 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.

6. Debt

Debt outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Dump Truck Loan	47,500	4.50%
Fire Truck Lease	64,589	5.40%
Total	<u>\$112,089</u>	

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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

6. Debt (Continued)

The Township obtained a loan in 2001 to finance the purchase of a road grader to be used for Township road maintenance. The road grader serves as collateral for the loan. The road grader was paid off in 2006. In 2005, the Township obtained a new loan to finance the purchase of a dump truck to be used for Township road maintenance. The dump truck serves as collateral for the loan. In 2007, the Township entered into a lease purchase agreement for a new fire truck.

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

Year ending December 31:	Dump Truck Bank Loan	Fire Truck Lease
2008	\$11,874	\$13,546
2009	11,874	13,546
2010	11,874	13,546
2011	11,874	13,546
2012	11,874	13,546
2013	0	9,029
Total	\$59,370	\$76,759

7. Retirement Systems

The Township employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS 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 and the Township contributed an amount equaling 13.85% and 13.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

8. 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.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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

8. Risk Management (Continued)

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 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.

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.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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

8. Risk Management (Continued)

	<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 \$21,000. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership.

<u>Contributions to OTARMA</u>	
2005	\$12,582
2006	\$12,125
2007	\$10,479

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.

9. Related Party Transactions

The Township contracts with a welding and insulation company, which is owned by a Trustee, for the purpose of providing steel and safety equipment to the Township. The Township paid \$243 and \$1,205 in 2007 and 2006, respectively.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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

10. Advances

During 2007 and 2006, the Township made several advances among funds that did not meet the advancing funds purpose. As a result, the 2007 and 2006 financial statements have been adjusted. These adjustments caused a negative balance at December 31, 2006 in the Motor Vehicle License (MVL) Tax Fund, contrary to Ohio Revised Code Section 5705.10.

11. Negative Cash Fund Balances

At December 31, 2007, the Motor Vehicle License (MVL) Tax Fund and Road District Fund had a negative cash balance of \$1,698 and \$1,136, respectively. At December 31, 2006, the Miscellaneous Capital Projects Fund, MVL Tax Fund, and Road District Fund had a negative cash fund balance of \$1,773, \$395, and \$1,760, respectively. It is uncertain how the Township will both eliminate the negative cash fund balances and continue to provide for general operating needs of the Township. Management has developed a plan to scrutinize the annual budget and to monitor expenses on a more regular basis.

12. Pending Litigation

The Township may be exposed to liability as a result of the former Township Fiscal Officer's actions/inactions which include, but are not limited to: Ohio Taxation liens for non-payment of employee withholding taxes in the amount of approximately \$2,400, IRS liens for failure to pay 941 taxes in the amount of \$591, non-payment of installment loan payments for a fire truck to the Killbuck Savings Bank, and other missing, inaccurate and incomplete Township records. The Township Trustees and new Fiscal Officer have undertaken an internal investigation into these issues. At this time it is not possible to estimate the potential losses or the likelihood of unfavorable outcomes.

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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*

Richland Township
Holmes County
2255 Township Road 33
Killbuck, Ohio 44637

To the Township Board of Trustees:

We have audited the financial statements of the Richland Township, Holmes County, Ohio, (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated October 3, 2008, wherein we noted the Township followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We 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: 2007-004, 2007-005, 2007-007 and 2007-008.

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. Of the significant deficiencies described above, we believe Finding Numbers 2007-005 and 2007-008 are material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated October 3, 2008.

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 2007-006.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated October 3, 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 management and the Township Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 3, 2008

**RICHLAND TOWNSHIP
HOLMES 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

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) provides that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the Fiscal Officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's Fiscal Officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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

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

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

- 2. Blanket Certificate** – Fiscal Officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
- 3. Super Blanket Certificate** – The Township may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the Fiscal Officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

FINDING NUMBER 2007-001 (Continued)

During 2007 and 2006 29% (10 of 35) and 66% (25 of 38) of expenditures tested were not certified by the Township's Fiscal Officer prior to incurring the obligation. It was also found that none of the three exceptions above were utilized for the items found to be in noncompliance. The Township should certify the availability of funds for expenditures prior to incurring obligations or use 'Then and Now Certificates' as means to certify funds pursuant to Ohio Rev. Code Section 5705.41(D).

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 help assure that purchase commitments receive prior approval. To improve controls over disbursement 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 Township certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 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.

FINDING NUMBER 2007-002

Noncompliance Citation

Ohio Rev. Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources.

The Township Fiscal Officer did not file requests for amendments to the fiscal year 2007 or fiscal year 2006 estimated resources until February 2008 and March 2007, respectively. As a result this condition contributed to Finding Number 2007-003. The Township Fiscal Officer should file amended certificate of estimated resources with the County Auditor during the fiscal year they are to be effective for.

FINDING NUMBER 2007-003

Noncompliance Citation

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund not exceed total estimated fund resources from each fund. This section also requires the Township to obtain a County Auditor's certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

FINDING NUMBER 2007-003 (Continued)

At December 31, 2007, total appropriations exceeded total estimated resources as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
General Fund	\$42,089	\$43,089	(\$1,000)

At December 31, 2006, total appropriations exceeded total estimated resources as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Misc. Special Revenue	\$0	\$13,323	(\$13,323)

The Township Board of Trustees should monitor appropriations versus estimated resources to help avoid overspending. In addition, the Township Fiscal Officer should obtain the required certificate from the County Auditor when amending appropriations and estimated resources.

FINDING NUMBER 2007-004

Noncompliance Citation/Significant Deficiency

Ohio Rev. Code Section 5705.41(B) requires that no subdivision or taxing unit is to expend money unless it has been appropriated.

At December 31, 2007, total expenditures exceeded appropriations before audit adjustments as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Special Revenue – Fire Dept.	\$34,241	\$158,317	(\$124,076)

At December 31, 2006, total expenditures exceeded appropriations as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Special Revenue – Gasoline Tax	\$86,173	\$93,211	(\$7,038)

In addition, appropriations posted to the Township's appropriation ledger did not always agree to the Township's actual Annual Appropriation Measure plus supplemental appropriations approved by the Board of Trustees as follows:

2007

<u>Fund</u>	<u>Approved Appropriations</u>	<u>Appropriations Ledger</u>	<u>Variance</u>
Fire Department	\$34,241	\$160,996	\$126,755
EMS	\$26,631	\$29,631	\$3,000

2006

<u>Fund</u>	<u>Approved Appropriations</u>	<u>Appropriations Ledger</u>	<u>Variance</u>
Gasoline Tax	\$86,173	\$95,660	\$9,487
Mis. Capital Projects	\$3,419	\$4,485	\$1,066

Budgetary information in the notes to the financial statement came from the Board approved amounts rather than the appropriations ledger.

FINDING NUMBER 2007-004 (Continued)

The Township Fiscal Officer should frequently compare actual expenditures plus outstanding encumbrances to appropriations plus contract commitments to avoid overspending. In addition, the Township Fiscal Officer should periodically review the Township’s appropriations ledger to ensure appropriation amounts are posted accurately and timely.

FINDING NUMBER 2007-005

Noncompliance Citation/Material Weakness

Auditor of State Bulletin 97-003 sets forth requirements for inter-fund advances and provides additional guidance on the use of advances:

- Any advance must be clearly labeled as such, and must be distinguished from a transfer;
- In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash (the “creditor” fund) for the same purpose for which the fund receiving the cash (the “debtor” fund) was established;
- The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on use of the money to be used to make the reimbursement; and
- Advances must be approved by a formal resolution of the taxing authority of the subdivision (Township Trustees) which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

During 2007 and 2006, the Township made several advances between funds that did not meet the advancing funds purpose as follows:

2007

<u>Advanced From</u>	<u>Advanced To</u>	<u>Amount</u>
Gas Tax Fund	General Fund	\$1,200
Gas Tax Fund	Fire District Fund	100
Road and Bridge Fund	EMS Fund	1,800
Road and Bridge Fund	Bond Retirement Fund	8,000
Fire District Fund	Bond Retirement Fund	3,000

2006

<u>Advanced From</u>	<u>Advanced To</u>	<u>Amount</u>
Bond Retirement Fund	Motor Vehicle License Tax Fund	\$6,950
Bond Retirement Fund	Road and Bridge Fund	1,500
Bond Retirement Fund	Fire District Fund	12,850

Since the advances made were prohibited based on the above mentioned requirements, the 2007 and 2006 financial statements and Township accounting records have been adjusted. These adjustments caused a negative balance at December 31, 2006 in the Motor Vehicle License (MVL) Tax Fund (\$1,698), contrary to Ohio Revised Code Section 5705.10. The Township should make sure that advances are made in accordance with legal requirements.

FINDING NUMBER 2007-005 (Continued)

We noted all advances were not approved by the Board of Trustees as evidenced in the Board's meeting minutes. The Board of Trustees should approve all advances and document the approval in the minutes, along with use and repayment information as noted in the Bulletin.

Implementation of this will help ensure the Township is in compliance with the Ohio Revised Code and Auditor of State Bulletin guidance.

FINDING NUMBER 2007-006

Noncompliance Citation

Ohio Rev. Code Section 5705.10 (H) provides that money paid into a fund shall be used only for the purpose for which such fund was established. Therefore, money in a fund may be used to pay debt charges provided the payment of such debt charges is consistent with the purpose for which the fund was established. During 2007 and 2006, the Township posted Fire/EMS levy monies and related intergovernmental receipts to the Bond Retirement Fund (\$61,494). Additionally, the related debt payments for a fire truck for which the levy was established were posted to the Bond Retirement Fund (\$128,987). The Township should have posted the Fire/EMS levy monies and related intergovernmental receipts and debt payments to the Fire District Fund. As a result, adjustments were made to the financial statements and Township accounting records to move all of the receipts, disbursements, and fund balance from the Bond Retirement Fund to the Fire District Fund.

The Township should ensure all revenue derived from a special levy and related expenses are accounted for in the special fund for the purpose for which the levy was made.

FINDING NUMBER 2007-007

Significant Deficiency

Disbursements

During disbursement testing we noted the following exceptions:

- Lack of supporting documentation;
- Loan payments were made via telephone transfer; however, a check transaction was entered into the system, while the corresponding check was never printed and the check stock was voided;
- Check payees and dates did not always match the ledgers;
- Pre-printed numbers on the checks did not always match the check number that was printed on the check by the UAN system;
- Sales tax was paid by the Township on certain items;
- Discounts were not taken advantage of;
- Finance charges were incurred for various outstanding balances;
- Abnormal length of time between when checks were written and when they cleared the bank; and
- Numerous checks to the same payee, with a wide range of dates all cleared the bank on the same day.

FINDING NUMBER 2007-007 (Continued)

In order to facilitate proper disbursement practices, as well as accurate recording and reporting of Township activity in the accounting records and financial statements, we recommend the Township develop and implement disbursement policies and procedures. The disbursement policies and procedures should at a minimum include the following:

- Procedures for ensuring all invoices and other supporting documentation are maintained;
- Procedures for ensuring that all loan payments made via a telephone transfer are properly entered into the UAN system rather than entering it in the system as a check and not printing the actual check;
- Procedures to ensure the ledgers agree to the actual physical check;
- Procedures to ensure the preprinted check numbers on the check stock agree to the check numbers printed on the check by the system;
- Policy that all new vendors receive the proper tax exempt forms to ensure the Township does not pay tax on its purchase of goods or services;
- Policy to ensure favorable discounts are taken when offered; and
- Procedures to ensure checks are distributed to payees timely in order to avoid finance charges and the possibility of misplacing signed checks.

Implementing the aforementioned recommendation will help ensure the Township has sound purchasing practices in place which should help prevent any irregularities or fraudulent activity from occurring. In addition, it will help ensure the Township's activity is accurately posted and reported in the accounting system and financial statements.

FINDING NUMBER 2007-008

Material Weakness

Financial Reporting

We noted errors in the Township's financial statements that required audit adjustments and reclassifications.

For 2006, 30 adjustments/reclassifications were posted to the Summary of Adjusted and Unadjusted Differences. Of the 30 adjustments/reclassifications, 23 were made to the financial statements and the Township's accounting records. The adjustments/reclassifications consisted of the following:

- reclassification of revenues between tax revenue and intergovernmental revenue
- reclassification of revenues between miscellaneous revenue and tax revenue
- reclassification and reallocation of the public utility reimbursement
- reclassification of expenditures to the proper expenditure line items
- adjustment of expenditures from the Gas Tax Fund to the EMS Fund
- adjustment of illegal advances. Refer to Finding Number 2007-005
- adjustment of receipts, expenditures, and fund balance from the Bond Retirement Fund to the Fire District Fund. Refer to Finding Number 2007-006

FINDING NUMBER 2007-008 (Continued)

The following table summarizes the total net effect on the fund balances from the adjustments/reclassifications noted above:

Fund	2006 Unaudited Ending Fund Balance	2006 Audited Ending Fund Balance	Difference
General Fund	\$8,639	\$7,426	(\$1,213)
Motor Vehicle License Tax Fund	6,057	(395)	(6,452)
Gas Tax Fund	11,507	11,578	71
Road and Bridge Fund	15,552	13,101	(2,451)
Fire District Fund	13,441	56,671	43,230
Road District Fund	5,611	(1,760)	(7,371)
Emergency Medical Services (EMS) Fund	18,732	18,822	90
Bond Retirement Fund	18,735	0	(18,735)
Miscellaneous Capital Projects	1,027	(1,773)	(2,800)

For 2007, 48 adjustments/reclassifications were posted to the Summary of Adjusted and Unadjusted Differences. Of the 48 adjustments/reclassifications, 35 were made to the financial statements and the Township's accounting records. The adjustments/reclassifications consisted of the following:

- reclassification of revenues between tax revenue and intergovernmental revenue
- reclassification of revenues between miscellaneous revenue and tax revenue
- reclassification of revenues between miscellaneous revenue and intergovernmental revenue
- reclassification and reallocation of the homestead and rollback
- reclassification and reallocation of the public utility reimbursement
- reclassification of expenditures to the proper expenditure line items
- adjustment of illegal advances. Refer to Finding Number 2007-005
- adjustment of receipts, expenditures, and fund balance from the Bond Retirement Fund to the Fire District Fund. Refer to Finding Number 2007-006

Fund	2007 Unaudited Ending Fund Balance	2007 Audited Ending Fund Balance	Difference
General Fund	\$886	\$7,906	\$7,020
Motor Vehicle License Tax Fund	4,280	(1,698)	(5,978)
Gas Tax Fund	15,135	16,435	1,300
Road and Bridge Fund	14,775	18,438	3,663
Fire District Fund	1	20,672	20,671
Road District Fund	6,129	(1,136)	(7,265)
Emergency Medical Services (EMS) Fund	12,191	10,525	(1,666)
Bond Retirement Fund	14,945	0	(14,945)
Miscellaneous Capital Projects	3,004	204	(2,800)

FINDING NUMBER 2007-008 (Continued)

Sound financial reporting is the responsibility of the Township and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

To help ensure the Township's financial statements and notes to the financial statements are complete and accurate, the Township should adopt policies and procedures to identify and correct errors and omissions. In addition, the Township should review the financial statements and notes prior to submission for audit.

Officials' Response: In response to the findings in 2007 Audit, we the Township officers are aware of the current problems. We are working on fixing the problems. The problems are being addressed; most of the problems are resolved.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC Section 5705.14, 5705.15, and 5705.16, the Township made advances of monies between funds that did not meet the purpose for which funds may be used.	No	Not Corrected. Refer to Finding Number 2007-005
2005-002	ORC Section 5705.34, the Board of Trustees did not approve the 2005 resolution authorizing the necessary tax levies and the 2004 resolution was late.	Yes	Finding No Longer Valid. The Township approved the 2006 and 2007 resolution before the October 1 deadline.
2005-003	ORC Section 5705.36, the Township did not file its certificate of available revenue for 2005 with the County Auditor and the 2004 certificate was filed late.	Yes	Finding No Longer Valid. The Township filed the certificate of available revenue with 2006 and 2007 with the County Auditor.
2005-004	ORC Section 5705.36(A)(2), the Township did not file requests for amendments to estimated resources for 2005 and 2004 with the County Auditor until June 2006.	No	Not Corrected. Refer to Finding Number 2007-002

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 Holmes County
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2005-005	ORC Section 5705.39, the Appropriations exceeded estimated resources at December 31, 2005 in the Road District Fund, FEMA Fund, and Miscellaneous Capital Projects Fund and at December 31, 2004 in the Gasoline Tax Fund. The Township did not obtain certificates from the County Auditor that appropriations from each fund do not exceed the total Amended Official Estimate of Resources.	No	Not Corrected. Refer to Finding Number 2007-003
2005-006	ORC Section 5705.41(B), expenditures exceeded appropriations in three funds in 2005 and one fund in 2004. Also the Township did not record appropriations into the UAN accounting system.	No	Not Corrected. Refer to Finding Number 2007-004
2005-007	Ohio Rev. Code Section 5705.41(D), the Township did not always certify all purchases prior to incurring the commitments.	No	Not Corrected. Refer to Finding Number 2007-001
2005-008	Ohio Rev. Code Section 5705.42, the Township did not establish an Issue II Fund for on-behalf grant money received from Ohio Public Works Commission.	N/A	No Longer Valid. The Township did not receive any Issue II monies during the audit period.

2005-009	<p>Budgetary Monitoring Controls - During 2005 and 2004, the Township did not monitor budgetary controls designed to help ensure that material budgetary laws were followed. As a result, the Township did not comply with all material budgetary laws required by the Ohio Revised Code such as filing budgetary documents with the County Auditor and seeking a renewal of a tax levy necessary for fire protection services.</p>	No	Partially Corrected. Refer to the management letter.
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Mary Taylor, CPA
Auditor of State

RICHLAND TOWNSHIP

HOLMES 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
JANUARY 13, 2009**