



**Auditor of State
Betty Montgomery**



Mary Taylor, CPA
Auditor of State

January 8, 2007

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 8, 2007. Thus, I am certifying this audit report for release under the signature of my predecessor.

Mary Taylor

MARY TAYLOR, CPA
Auditor of State

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**RICHLAND TOWNSHIP
HOLMES COUNTY**

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**Auditor of State
Betty Montgomery**

Richland Township
Holmes County
2730 TR 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 a February 2, 2005 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 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 black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

November 28, 2006

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Richland Township
Holmes County
2370 TR 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, 2005 and 2004. 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* permit 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.

Revisions to GAAP would require the Township to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. While the Township does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Township has elected not to reformat its statements. Since this Township does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

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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, 2005 and 2004, 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, 2005 and 2004, 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 Richland Township, Holmes County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Township to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. 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 November 28, 2006, 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.



Betty Montgomery
Auditor of State

November 28, 2006

**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, 2005**

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Property and Other Local Taxes	\$10,108	\$38,835	\$25,669		\$74,612
Licenses, Permits, and Fees		13,512			13,512
Intergovernmental	25,073	159,491	3,004		187,568
Earnings on Investments	815	86			901
Miscellaneous	1,304	5,432		\$1,800	8,536
Total Cash Receipts	37,300	217,356	28,673	1,800	285,129
Cash Disbursements:					
Current:					
General Government	24,477	200			24,677
Public Safety		49,185	671		49,856
Public Works	216	153,579			153,795
Health	7,102				7,102
Human Services		6,001			6,001
Capital Outlay		30,475		8,636	39,111
Debt Service:					
Redemption of Principal		9,274			9,274
Interest and Other Fiscal Charges		1,425			1,425
Total Cash Disbursements	31,795	250,139	671	8,636	291,241
Total Receipts Over/(Under) Disbursements	5,505	(32,783)	28,002	(6,836)	(6,112)
Other Financing Receipts/(Disbursements):					
Sale of Fixed Assets				3,400	3,400
Advances-In	3,375	54,071	30,000	6,800	94,246
Advances-Out	(3,375)	(54,071)	(30,000)	(6,800)	(94,246)
Total Other Financing Receipts/(Disbursements)	0	0	0	3,400	3,400
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	5,505	(32,783)	28,002	(3,436)	(2,712)
Fund Cash Balance, January 1	9,030	82,026	81,801	768	173,625
Fund Cash Balance (Deficit), December 31	\$14,535	\$49,243	\$109,803	(\$2,668)	\$170,913

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, 2004**

	Governmental Fund Types				Totals
	General	Special Revenue	Debt Service	Capital Projects	(Memorandum Only)
Cash Receipts:					
Property and Other Local Taxes	\$8,673	\$55,037	\$24,212		\$87,922
Licenses, Permits, and Fees		3,652			3,652
Intergovernmental	33,207	108,311	2,853		144,371
Earnings on Investments	1,037	96			1,133
Miscellaneous	127	1,529		\$1,200	2,856
Total Cash Receipts	43,044	168,625	27,065	1,200	239,934
Cash Disbursements:					
Current:					
General Government	28,177	568			28,745
Public Safety		32,152	629		32,781
Public Works	198	119,805			120,003
Health	6,933				6,933
Human Services		5,144			5,144
Capital Outlay		15,510		9,341	24,851
Debt Service:					
Redemption of Principal		6,379			6,379
Interest and Other Fiscal Charges		1,326			1,326
Total Cash Disbursements	35,308	180,884	629	9,341	226,162
Total Receipts Over/(Under) Disbursements	7,736	(12,259)	26,436	(8,141)	13,772
Other Financing Receipts/(Disbursements):					
Sale of Fixed Assets				490	490
Transfers-In		4,400			4,400
Transfers-Out	(4,400)				(4,400)
Advances-In	1,262	11,232			12,494
Advances-Out	(7,562)	(4,932)			(12,494)
Total Other Financing Receipts/(Disbursements)	(10,700)	10,700	0	490	490
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements And Other Financing Disbursements	(2,964)	(1,559)	26,436	(7,651)	14,262
Fund Cash Balance, January 1	11,994	83,585	55,365	8,419	159,363
Fund Cash Balance, December 31	\$9,030	\$82,026	\$81,801	\$768	\$173,625

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

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

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. Basis of Accounting

These financial statements follow the basis of accounting the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements. 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 disbursements investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Township invests in certificates of deposit which are valued at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township classifies its funds into the following types:

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Township had the following significant Special Revenue Fund:

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

3. Debt Service Fund

General Debt Service Fund – This fund receives property tax money to pay for future debt.

4. 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 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.

3. Encumbrances

The Ohio Revised Code requires the Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law during the audit period.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant, and Equipment

The Township records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH

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

	2005	2004
Demand deposits	\$148,685	\$151,850
Certificates of deposit	22,228	21,775
Total deposits	\$170,913	\$173,625

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.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2005 and 2004 follows:

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$35,000	\$37,300	\$2,300
Special Revenue	146,713	217,356	70,643
Debt Service	25,700	28,673	2,973
Capital Projects	1,800	5,200	3,400
Total	\$209,213	\$288,529	\$79,316

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$43,255	\$31,795	\$11,460
Special Revenue	234,938	250,139	(15,201)
Debt Service	107,501	671	106,830
Capital Projects	9,341	8,636	705
Total	\$395,035	\$291,241	\$103,794

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$31,800	\$43,044	\$11,244
Special Revenue	124,300	173,025	48,725
Debt Service	24,300	27,065	2,765
Capital Projects	1,800	1,690	(110)
Total	\$182,200	\$244,824	\$62,624

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$43,019	\$39,708	\$3,311
Special Revenue	218,885	180,884	38,001
Debt Service	79,665	629	79,036
Capital Projects	10,219	9,341	878
Total	\$351,788	\$230,562	\$121,226

4. NONCOMPLIANCE

Contrary to Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16, the Township made advances of monies among funds that did not meet the purpose for which funds may be used. These adjustments caused negative balances at December 31, 2005 in the Road District, Road and Bridge Special Revenue Funds and the Miscellaneous Capital Projects Fund, contrary to Ohio Revised Code Section 5705.10.

Contrary to Ohio Rev. Code Section 5705.34, the Board of Trustees did not approve the 2005 resolution authorizing the necessary tax levies.

Contrary to Ohio Rev. Code Section 5705.36, the Township did not file its certificate of available revenue for 2005 or 2004 with the County Auditor.

Contrary to Ohio Rev. Code 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.

Contrary to Ohio Rev. Code Section 5705.39, the appropriations exceeded estimated resources at December 31, 2005 in the Special Revenue Road District Fund, Special Revenue FEMA Fund, and Miscellaneous Capital Projects Fund and at December 31, 2004 in the Special Revenue 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.

Contrary to Ohio Rev. Code Section 5705.41(B), the Township had expenditures exceeding appropriations in three funds in 2004 and one fund in 2005, and did not record appropriations into the UAN accounting system and encumber funds to be spent.

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

Contrary to Ohio Rev. Code Section 5705.42, the Township did not record Issue II Funds for on-behalf grant monies received from Ohio Public Works Commission.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees adopt 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, 2005 was as follows:

	Principal	Interest Rate
Road Grader Bank Loan	\$6,774	6.50%
Dump Truck Loan	67,510	4.50%
Total	\$74,284	

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. 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.

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

	Dump Truck Bank Loan	Road Grader Bank Loan
Year ending December 31:		
2006	\$11,874	\$7,705
2007	11,874	
2008	11,874	
2009	11,874	
2010	11,874	
2011 – 2012	23,748	
Total	\$83,118	\$7,705

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

7. 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 this plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, members of OPERS contributed 8.5 percent of their gross salaries. The Township contributed an amount equaling 13.55 percent of participants' gross salaries. The Township has paid all contributions required through December 31, 2005.

8. 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 Government 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 townships pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per 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. Townships can elect additional coverage, from \$2,000,000 to \$12,000,000 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.

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. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

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 value. 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 2005 was \$1,682,589.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

8. RISK MANAGEMENT (Continued)

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

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

Members may withdraw on each anniversary of the date they joined OTARMA. They must 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 contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

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, 2005 and 2004.

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$30,485,638	\$28,132,620
Liabilities	<u>(12,344,576)</u>	<u>(11,086,379)</u>
Retained earnings	<u>\$18,141,062</u>	<u>\$17,046,241</u>
<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$9,177,796	\$7,588,343
Liabilities	<u>(1,406,031)</u>	<u>(543,176)</u>
Retained earnings	<u>\$7,771,765</u>	<u>\$7,045,167</u>

The Casualty Coverage assets and retained earnings above include approximately \$11.6 million and \$10.3 million of unpaid claims to be billed to approximately 950 member townships in the future, as of December 31, 2005 and 2004, respectively. OTARMA will collect these amounts in future annual premium billings when OTARMA's related liabilities are due for payment. The Township's share of these unpaid claims is approximately \$25,164.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004
(Continued)**

9. CONTINGENT LIABILITIES

The Township was a defendant in a lawsuit that was filed subsequent to the period under audit. This lawsuit has recently been settled with the amount fully covered by insurance.

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would be material.

10. RELATED PARTY TRANSACTIONS

The Township owns a building that was leased to a family member of a Trustee during the audit period. The Township received payments totaling \$1,800 and \$1,200 in 2005 and 2004, respectively.

The Township purchased shale from a family member of a Trustee and payments totaled \$750 and \$2,500 in 2005 and 2004, respectively.

The Township contracts with a service company which is owned by the Clerk and her husband, an employee of the Township, for the purpose of mowing and renovating a loader purchased by the Township. The Township paid \$2,945 and \$3,540 in 2005 and 2004, respectively.

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 \$215 and \$3,429 in 2005 and 2004, respectively.



**Auditor of State
Betty Montgomery**

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

Richland Township
Holmes County
2730 TR 33
Killbuck, Ohio 44637

To the Board of Trustees:

We have audited the financial statements of Richland Township, Holmes County, Ohio, (the Township) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 28, 2006, 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 because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying Schedule of Findings as item 2005-009.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. However, in a separate letter to the Township's management dated November 28, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

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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 audits and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2005-001 through 2005-008. In a separate letter to the Township's management dated November 28, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of management and the Board of Trustees. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

November 28, 2006

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

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

Noncompliance

FINDING NUMBER 2005-001

Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 prohibit the Township from making advances among funds that do not meet the purpose for which funds may be used. Also, Auditor of State Bulletin 97-003 sets forth requirements for inter-fund advances and provides additional guidance on the use of advances. During 2005, the Township made several advances among funds that did not meet the advancing funds purpose as follows:

<u>Advanced From</u>	<u>Advanced To</u>	<u>Amount</u>
Bond Retirement Fund	Road and Bridge Fund	\$4,945
Bond Retirement Fund	Fire Levy Fund	1,820
Bond Retirement Fund	Road District Fund	7,500
Bond Retirement Fund	Miscellaneous Capital Projects Fund	2,800

Since the advances made were prohibited based on the above mentioned requirements, the 2005 financial statements have been adjusted. These adjustments caused negative balances at December 31, 2005 in the Road District, Road and Bridge Special Revenue Funds and the Miscellaneous Capital Projects Fund, contrary to Ohio Revised Code Section 5705.10. The Township should make sure that advances are made in accordance with legal requirements. This will help ensure the Township is in compliance with the Ohio Revised Code and Auditor of State Bulletin guidance.

In addition, 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 their approval in the minutes.

Noncompliance

FINDING NUMBER 2005-002

Ohio Rev. Code Section 5705.34 requires the Township to pass a resolution authorizing the necessary tax levies and to certify those levies to the county auditor before October 1, unless a later date is approved by the tax commissioner.

The Township passed a resolution authorizing the necessary tax levies for fiscal year 2005 on November 5, 2004, after the October 1 deadline. The Township did not pass a resolution authorizing the necessary tax levies or certify such rates to the County Auditor for fiscal 2006.

The County Auditor does not have authority to collect levy monies until the rates and amounts have been authorized by the Township Trustees. By not filing, or by filing late, the Township's collection of tax levy revenues for the 2005 and 2006 fiscal years could have been jeopardized. The Township should ensure the necessary tax levies are formally approved and certified to the County Auditor in a timely manner. This will help ensure that monies generated from approved tax levies can be collected and available for Township operations.

Noncompliance

FINDING NUMBER 2005-003

Ohio Rev. Code Section 5705.36 requires that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units certify to the County Auditor the total amount from all sources which is available for expenditure from each fund in the tax budget along with any balances that existed at the end of the preceding year.

A Certificate of Available Revenue was not filed with the County Auditor for fiscal year 2004 until April 27, 2004. A Certificate of Available Revenue was not filed with the County Auditor for fiscal year 2005 until June 2006. The Township Clerk should file a certificate of available revenue with the County Auditor on or about the first day of each fiscal year.

Noncompliance

FINDING NUMBER 2005-004

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 Clerk did not file requests for amendments to the fiscal year 2005 or fiscal year 2004 estimated resources of the Township to the County Auditor until June 2006. The Township Clerk should file amended certificate of estimated resources to the County Auditor during the fiscal year they are to be effective.

Noncompliance

FINDING NUMBER 2005-005

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.

At December 31, 2005, total appropriations exceeded total estimated resources at year-end as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Special Revenue – Road District	\$7,862	\$15,962	(\$8,100)
Special Revenue – FEMA	0	26,200	(26,200)
Miscellaneous Capital Projects Fund	2,568	9,340	(6,772)

FINDING NUMBER 2005-005 (Continued)

At December 31, 2004, total appropriations exceeded total estimated resources at year-end as follows:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
Special Revenue - Gasoline Tax	\$62,575	\$73,575	(\$11,000)

In addition, the Township did not always obtain certificates from the County Auditor that appropriations from each fund do not exceed the total Amended Official Estimate of Resources for certain appropriation and estimated resource amendments. The Township Board of Trustees should monitor appropriations versus estimated resources to help avoid overspending. In addition, the Township Clerk should obtain the required certificate from the County Auditor when amending appropriations and estimated resources.

Noncompliance

FINDING NUMBER 2005-006

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, 2005, total expenditures exceeded appropriations at year-end as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Special Revenue – Road District	\$15,962	\$29,882	(\$13,920)
Special Revenue – Gasoline Tax	78,038	78,760	(722)
Special Revenue – Road and Bridge	30,049	37,049	(7,000)

At December 31, 2004, total expenditures exceeded appropriations at year-end as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance</u>
Special Revenue – Road District	20,400	25,414	(5,014)

In addition, appropriations posted to the Township’s Appropriation Reports did not always agree to the Township’s actual Annual Appropriation Measure plus supplemental appropriations approved by the Board of Trustees. The Township Clerk should frequently compare actual expenditures plus outstanding encumbrances to appropriations plus contract commitments to avoid overspending. In addition, the Township Clerk should periodically review the Township’s Appropriations Reports to ensure appropriation amounts are posted accurately and timely.

Noncompliance

FINDING NUMBER 2005-007

Ohio Rev. Code Section 5705.41(D) requires 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.

During 2005 and 2004 83% (29 of 35) and 88% (36 of 41) of expenditures tested were not certified by the Township's Clerk prior to incurring the obligation. It was also found that none of the exceptions above were utilized for the items found to be in noncompliance. The Township should certify the availability of funds for expenditure pursuant to Ohio Rev. Code Section 5705.41(D).

Noncompliance

FINDING NUMBER 2005-008

Ohio Rev. Code 5705.42 requires, in part, that when the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of the state to aid in paying the cost of any program, activity or function of such subdivision, the amount is deemed appropriated and shall be recorded as such by the subdivision.

During 2005, the Township did not initially record Issue II monies of \$18,945. The financial statements have been adjusted to reflect the on-behalf activity. The Township should establish a procedure to help ensure all on-behalf monies are recorded. The Township should refer to Auditor of State Bulletins 2002-004 and 2000-008 for guidance on this and other related topics.

Reportable Condition

FINDING NUMBER 2005-009

Monitoring the Budgetary Process

Although the Township performed some of the necessary procedures for adopting and approving budgetary information, the Township did not monitor the budgetary process to ensure that material budgetary laws were followed. As a result, the Township Clerk did not finalize the budgetary process by filing documents with the County Budget Commission and County Auditor to comply with all material budgetary laws as required by the Ohio Revised Code. Also, the Township failed to file the necessary documents to seek renewal of a fire levy with the Board of Elections which limited the possibility of fire levy funding that could have allowed the Township to obtain additional fire fighting equipment.

In conjunction with becoming familiar with Section 5705, Ohio Revised Code, the elected Township officials should also meet with the Holmes County Budget Commission and in particular with the Holmes County Auditor to increase their knowledge of the budgetary process especially as it relates to the filing of the Tax Budget, Appropriation Resolution and Certificate of Estimated Resources; filing Appropriation and Estimated Resource Amendments; limiting function expenditures to function appropriations, limiting fund appropriations by fund estimated resources; transferring and advancing monies among funds; and accounting for each fund as a distinct operating entity.

Officials' Response: We did not receive a response from officials to the findings reported above.

**RICHLAND TOWNSHIP
HOLMES COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2005 AND 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Ohio Rev. Code Section 5705.41(D) The Township failed to properly certify the availability of funds prior to incurring an obligation.	No	Not corrected. Refer to Finding 2005-007.
2003-002	Ohio Rev. Code Section 5705.41(B) Expenditures exceeded appropriations in the Capital Projects Fund.	No	Not corrected. Refer to Finding 2005-006.



**Auditor of State
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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 11, 2007**