



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**LIBERTY TOWNSHIP
DARKE COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Liberty Township
Darke County
P.O. Box 69
Palestine, Ohio 45352

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Darke County, (the Township) as of and for the years ended December 31, 2001 and 2000. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Township prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Township as of December 31, 2001 and 2000, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2002 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the management and Board of Trustees, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

June 11, 2002

**LIBERTY TOWNSHIP
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$18,880	\$110,232	\$129,112
Intergovernmental	55,701	64,400	120,101
Charges for Services		14,080	14,080
Licenses, Permits, and Fees	220	7,401	7,621
Earnings on Investments	13,985	1,488	15,473
Other Revenue	1,023	1,567	2,590
	<u>89,809</u>	<u>199,168</u>	<u>288,977</u>
Cash Disbursements:			
Current:			
General Government	40,006		40,006
Public Safety		22,366	22,366
Public Works		80,595	80,595
Health	7,102	7,340	14,442
Capital Outlay	4,465	21,734	26,199
	<u>51,573</u>	<u>132,035</u>	<u>183,608</u>
Total Cash Disbursements	<u>51,573</u>	<u>132,035</u>	<u>183,608</u>
Total Receipts Over/(Under) Disbursements	38,236	67,133	105,369
Other Financing Receipts and (Disbursements):			
Other Sources	3,429	1,900	5,329
	<u>3,429</u>	<u>1,900</u>	<u>5,329</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	41,665	69,033	110,698
Fund Cash Balances, January 1	61,591	288,550	350,141
	<u>61,591</u>	<u>288,550</u>	<u>350,141</u>
Fund Cash Balances, December 31	<u>\$103,256</u>	<u>\$357,583</u>	<u>\$460,839</u>

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

LIBERTY TOWNSHIP
DARKE COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Nonexpendable Trust</u>
Operating Cash Receipts:	
Interest	<u>\$144</u>
Total Operating Cash Receipts	144
Operating Cash Disbursements:	
Supplies and Materials	<u>65</u>
Total Operating Cash Disbursements	<u>65</u>
Operating Income/(Loss)	79
Fund Cash Balances, January 1	<u>4,202</u>
Fund Cash Balances, December 31	<u><u>\$4,281</u></u>

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

**LIBERTY TOWNSHIP
DARKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2000**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Local Taxes	\$18,595	\$108,514	\$127,109
Intergovernmental	23,196	60,358	83,554
Charges for Services		11,273	11,273
Licenses, Permits, and Fees	450	5,827	6,277
Fines, Forfeitures, and Penalties		322	322
Earnings on Investments	8,519	1,652	10,171
Other Revenue	46	4,347	4,393
	<u>50,806</u>	<u>192,293</u>	<u>243,099</u>
Total Cash Receipts			
	<u>50,806</u>	<u>192,293</u>	<u>243,099</u>
Cash Disbursements:			
Current:			
General Government	36,651		36,651
Public Safety		17,832	17,832
Public Works		100,568	100,568
Health	5,370	11,953	17,323
Capital Outlay		13,324	13,324
	<u>42,021</u>	<u>143,677</u>	<u>185,698</u>
Total Cash Disbursements			
	<u>42,021</u>	<u>143,677</u>	<u>185,698</u>
Total Receipts Over/(Under) Disbursements	8,785	48,616	57,401
Other Financing Receipts and (Disbursements):			
Other Sources		1,550	1,550
		<u>1,550</u>	<u>1,550</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	8,785	50,166	58,951
Fund Cash Balances, January 1	<u>52,806</u>	<u>238,384</u>	<u>291,190</u>
Fund Cash Balances, December 31	<u>\$61,591</u>	<u>\$288,550</u>	<u>\$350,141</u>

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

LIBERTY TOWNSHIP
DARKE COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2000

	<u>Nonexpendable Trust</u>
Operating Cash Receipts:	
Interest	<u>\$161</u>
Total Operating Cash Receipts	<u>161</u>
Operating Cash Disbursements:	
Supplies and Materials	<u>65</u>
Total Operating Cash Disbursements	<u>65</u>
Operating Income/(Loss)	96
Fund Cash Balances, January 1	<u>4,106</u>
Fund Cash Balances, December 31	<u><u>\$4,202</u></u>

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

**LIBERTY TOWNSHIP
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Liberty Township, Darke County, (the Township) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides general governmental services, including road and bridge maintenance, cemetery maintenance, fire protection, and emergency medical services. The Township contracts with Washington and Neave Townships in Darke County and Greensfork Township in Indiana to provide fire protection services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

All Township funds are held in an interest bearing checking account, savings account, and certificates of deposit. Certificates of Deposit 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 is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

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

**LIBERTY TOWNSHIP
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Motor Vehicle License Tax Fund – This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Township roads.

Cemetery Fund – This fund accounts for the operation and maintenance of the Township's cemeteries.

Fire District Fund – This fund receives property tax money to provide fire protection services for the Township.

3. Fiduciary Funds (Trust and Agency Funds)

These funds are used to account for resources restricted by legally binding trust agreements. The Township had the following significant fiduciary funds.

Nonexpendable Trust Funds

Brown Memorial Fund - Amounts donated are maintained in perpetuity. Investment earnings are used for grave upkeep as specified by the donor.

Teaford-Ketring Memorial Fund – Amounts donated are maintained in perpetuity. Investment earnings are used for grave upkeep as specified by the donor.

Ross Memorial Fund - Amounts donated are maintained in perpetuity. Investment earnings are used for grave upkeep as specified by the donor.

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.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2001 and 2000 budgetary activity appears in Note 3.

**LIBERTY TOWNSHIP
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2001	2000
Demand deposits	\$294,781	\$194,874
Certificates of deposit	170,339	159,469
Total deposits	\$465,120	\$354,343

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2001 and 2000 follows:

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$44,729	\$93,238	\$48,509
Special Revenue	205,965	201,068	(4,897)
Fiduciary	146	144	(2)
Total	\$250,840	\$294,450	\$43,610

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$98,879	\$51,573	\$47,306
Special Revenue	494,515	132,035	362,480
Fiduciary	4,348	65	4,283
Total	\$597,742	\$183,673	\$414,069

2000 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$40,731	\$50,806	\$10,075
Special Revenue	167,753	193,843	26,090
Fiduciary	80	161	81
Total	\$208,564	\$244,810	\$36,246

**LIBERTY TOWNSHIP
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2000 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$93,532	\$42,021	\$51,511
Special Revenue	406,142	143,677	262,465
Fiduciary	4,186	65	4,121
Total	\$503,860	\$185,763	\$318,097

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Board of Trustees. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

5. RETIREMENT SYSTEMS

The Township's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2001 and from January 1, 2000 through June 30, 2000. PERS temporarily reduced the employer contribution rate to 8.13%, effective July 1, 2000 through December 31, 2000. The Township has paid all contributions required through December 31, 2001.

6. RISK MANAGEMENT

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.

**LIBERTY TOWNSHIP
DARKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001 AND 2000
(Continued)**

6. RISK MANAGEMENT (Continued)

A. Casualty Coverage

OTARMA retains casualty risks up to \$250,000 per occurrence. Claims exceeding \$250,000 are reinsured with APEEP up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000, which the General Reinsurance Corporation will reinsure.

If losses exhaust OTARMA's retained earnings, APEEP covers OTARMA losses up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

B. Property Coverage

OTARMA retains property risks including automobile physical damage up to \$100,000 on any specific loss. The Travelers Indemnity Company reinsures specific losses exceeding \$100,000. The Travelers Indemnity Company also provides aggregate excess coverage for property including automobile physical damage subject to an annual stop loss. When the stop loss is reached in any year, The Travelers Indemnity Company provides coverage in excess of \$10,000.

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.

C. Financial Position

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

<u>Casualty Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$23,703,776	\$22,684,383
Liabilities	<u>9,379,003</u>	<u>8,924,977</u>
Retained earnings	<u>\$14,324,773</u>	<u>\$13,759,406</u>
<u>Property Coverage</u>	<u>2001</u>	<u>2000</u>
Assets	\$5,011,131	\$4,156,784
Liabilities	<u>647,667</u>	<u>497,831</u>
Retained earnings	<u>\$4,363,464</u>	<u>\$3,658,953</u>

The Township also provides health insurance coverage to officials through a private carrier.

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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND
ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Liberty Township
Darke County
P.O. Box 69
Palestine, Ohio 45352

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Darke County, (the Township) as of and for the years ended December 31, 2001 and 2000, and have issued our report thereon dated June 11, 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Township in a separate letter dated June 11, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Liberty Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2001-40319-001 and 2001-40319-002.

**Internal Control Over Financial Reporting
(Continued)**

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of 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 to be material weaknesses. However, of the reportable conditions listed above, we consider items 2001-40319-001 and 2001-40319-002 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated June 11, 2002.

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



Jim Petro
Auditor of State

June 11, 2002

**LIBERTY TOWNSHIP
DARKE COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

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

Material Weaknesses:

FINDING NUMBER 2001-40319-001

Annual Financial Reports

The annual financial reports filed by the Clerk for 2001 and 2000 were not complete and certain revenues were not correctly classified. The annual financial reports submitted for 2001 and 2000 omitted budgetary statements completely and the combined statements did not include the activity of the special revenue fund type. Intangible tax revenue received from the County and the State that should have been posted as tax revenue was posted as intergovernmental revenue. The amounts received for the \$10,000 property tax exemption which should be reported as intergovernmental revenue were posted as tax revenue. The amount received as Worker's Compensation refund that should be recorded as other financing sources were posted to other revenue. The financial statements and budgetary presentation in this report have been adjusted to correct the deficiencies noted above.

The failure to submit complete and accurate data on the annual reports can mislead the users of the report since it does not present an accurate accounting of the Township's finances.

The Township's Clerk should analyze revenue received to make sure it is classified properly, and the annual financial reports should be fully completed to report the Township's financial activity accurately. The Township Trustees should review the annual report for completeness before its filing with the Auditor of State.

FINDING NUMBER 2001-40319-002

Unrecorded Cash and Interest

The Township did not include the amount invested in certificates of deposit as part of the fund balances nor did it maintain a record of those investments. The risks associated with this condition include the understatement of fund balances for financial reporting, and the failure of monthly reconciliations to detect possible misuse or misappropriation of funds. To decrease these risks:

- a. Interest should be posted to the appropriate accounts when received;
- b. When the Township purchases a certificate of deposit, the transaction should be recorded as memo entry and not a cash disbursement as is currently done; this will allow the accounting system fund balances to include the amounts invested in certificates of deposit.
- c. Periodic comparisons between the depository balances and the Township's records should be made to verify bookkeeping accuracy



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LIBERTY TOWNSHIP

DARKE 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
AUGUST 1, 2002**