



Mary Taylor, CPA
Auditor of State

LIBERTY TOWNSHIP
HIGHLAND COUNTY

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Mary Taylor, CPA

Auditor of State

Liberty Township
Highland County
95 Moore Road
Hillsboro, Ohio 45133

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.

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Mary Taylor, CPA
Auditor of State

September 12, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Liberty Township
Highland County
95 Moore Road
Hillsboro, Ohio 45133

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Highland 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 Government 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 the Liberty Township, Highland 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 September 12, 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.

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

Mary Taylor, CPA
Auditor of State

September 12, 2008

LIBERTY TOWNSHIP
HIGHLAND 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>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property and Local Taxes	\$49,401	\$184,827	-		\$234,228
Intergovernmental	59,115	139,223		\$ 160,378	358,716
Special Assessments		2,758			2,758
Fines, Licenses and Permits	14,642				14,642
Earnings on Investments	24,216	743			24,959
Miscellaneous		1,090		721	1,811
Total Cash Receipts	<u>147,374</u>	<u>328,641</u>	<u>-</u>	<u>161,099</u>	<u>637,114</u>
Cash Disbursements:					
Current:					
General Government	124,239				124,239
Public Safety		51,184			51,184
Public Works	2,500	214,914			217,414
Health	10,000				10,000
Debt Service:					
Redemption of Principal			\$ 10,000		10,000
Interest and Fiscal Charges			1,559		1,559
Capital Outlay				219,638	219,638
Total Cash Disbursements	<u>136,739</u>	<u>266,098</u>	<u>11,559</u>	<u>219,638</u>	<u>634,034</u>
Total Receipts Over/(Under) Disbursements	<u>10,635</u>	<u>62,543</u>	<u>(11,559)</u>	<u>(58,539)</u>	<u>3,080</u>
Other Financing Receipts/(Disbursements):					
Transfers-In			11,500		11,500
Transfers-Out	(11,500)				(11,500)
Advances-In		2,700			2,700
Advances-Out	(2,700)				(2,700)
Other Financing Sources	30				30
Total Other Financing Receipts/(Disbursements)	<u>(14,170)</u>	<u>2,700</u>	<u>11,500</u>	<u>0</u>	<u>30</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u>(3,535)</u>	<u>65,243</u>	<u>(59)</u>	<u>(58,539)</u>	<u>3,110</u>
Fund Cash Balances, January 1	<u>151,951</u>	<u>365,208</u>	<u>608</u>	<u>60,466</u>	<u>578,233</u>
Fund Cash Balances, December 31	<u>\$148,416</u>	<u>\$430,451</u>	<u>\$549</u>	<u>\$1,927</u>	<u>\$581,343</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$4,644</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,644</u>

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

LIBERTY TOWNSHIP
HIGHLAND 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>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Property and Local Taxes	\$48,469	\$182,523			\$230,992
Intergovernmental	143,060	144,597			287,657
Special Assessments		2,752			2,752
Fines, Licenses and Permits	13,756				13,756
Earnings on Investments	15,403	46			15,449
Miscellaneous		648		\$ 1,235	1,883
Total Cash Receipts	<u>220,688</u>	<u>330,566</u>	<u>-</u>	<u>1,235</u>	<u>552,489</u>
Cash Disbursements:					
Current:					
General Government	121,477				121,477
Public Safety		69,526			69,526
Public Works	3,000	219,352			222,352
Health	6,384				6,384
Debt Service:					
Interest and Fiscal Charges			\$ 592		592
Capital Outlay	58,123			58,586	116,709
Total Cash Disbursements	<u>188,984</u>	<u>288,878</u>	<u>592</u>	<u>58,586</u>	<u>537,040</u>
Total Receipts Over/(Under) Disbursements	<u>31,704</u>	<u>41,688</u>	<u>(592)</u>	<u>(57,351)</u>	<u>15,449</u>
Other Financing Receipts/(Disbursements):					
Proceeds from bank note	42,000				42,000
Transfers In		45,500	1,200	117,817	164,517
Transfers Out	(164,517)				(164,517)
Other Financing Sources	16,100	28			16,128
Total Other Financing Receipts/(Disbursements)	<u>(106,417)</u>	<u>45,528</u>	<u>1,200</u>	<u>117,817</u>	<u>58,128</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(74,713)	87,216	608	60,466	73,577
Fund Cash Balances, January 1	<u>226,664</u>	<u>277,992</u>	<u>0</u>	<u>0</u>	<u>504,656</u>
Fund Cash Balances, December 31	<u>\$151,951</u>	<u>\$365,208</u>	<u>\$608</u>	<u>\$60,466</u>	<u>\$578,233</u>
Reserve for Encumbrances, December 31	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$55,194</u>	<u>\$55,194</u>

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

**LIBERTY TOWNSHIP
HIGHLAND 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 Liberty Township, Highland County, Ohio (the Township), as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides general governmental services and road maintenance. The Township contracts with the City of Hillsboro to provide fire services.

The Township is part of the Highland County Joint Township Hospital District, a jointly governed organization established for the public purpose of better providing for the health and welfare of the people primarily of Highland County. Trustees from each of the 17 townships of Highland County constitute the Highland County Joint Township Hospital Board of Trustees who appoints the Hospital Board of Governors which is composed of one member from each township and three at-large members.

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 Deposits

The Township deposits all available funds in a "Plus Checking" account and certificates of deposit at local commercial banks. The Township values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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

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

Fire Levy Fund – This fund receives proceeds from the property tax levy for providing fire protection services to Township residents

Permissive Motor Vehicle License Tax Fund - This fund receives proceeds from the taxes levied by the Township and by Highland County on motor vehicle licenses sold for road maintenance and repair.

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:

Ervin Road Public Works Project Fund – This fund received a grant from the Ohio Public Works Commission to widen Ervin Road.

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 carried over, and need not be reappropriated. The Township did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

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

1. Summary of Significant Accounting Policies (Continued)

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

F. Property, Plant, and Equipment

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

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 Deposits

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

	2007	2006
Demand deposits	\$177,598	\$220,095
Certificates of deposit	403,745	358,138
Total deposits	\$581,343	\$578,233

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

3. Budgetary Activity

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

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$112,200	\$147,404	\$35,204
Special Revenue	279,096	331,341	52,245
Debt Service	45,000	11,500	(33,500)
Capital Projects	209,324	161,099	(48,225)
Total	\$645,620	\$651,344	\$5,724

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

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

3. Budgetary Activity (Continued)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$259,855	\$150,939	\$108,916
Special Revenue	299,385	270,742	28,643
Debt Service	45,608	11,559	34,049
Capital Projects	269,790	219,638	50,152
Total	\$874,638	\$652,878	\$221,760

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$405,039	\$278,788	(\$126,251)
Special Revenue	363,775	376,094	12,319
Debt Service	0	1,200	1,200
Capital Projects	363,000	119,052	(243,948)
Total	\$1,131,814	\$775,134	(\$356,680)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$618,744	\$353,501	\$265,243
Special Revenue	369,744	288,878	80,866
Debt Service	9,525	592	8,933
Capital Projects	363,000	113,780	249,220
Total	\$1,361,013	\$756,751	\$604,262

Contrary to Ohio law, estimated receipts exceeded actual receipts in some funds, the excess was appropriated, and a reduced amended certificate was not received and appropriations reduced. Contrary to Ohio law, appropriations exceeded the total certified as available for appropriations in some funds in 2006. Also contrary to Ohio law prior certification was not obtained for all expenditures.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Board of 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.

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

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

4. Property Tax (Continued)

Public utilities are also taxed on personal and real property located within the Township.

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

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

5. Debt

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Merchants National Bank Note	\$32,000	4.25%

In 2006 a loan was obtained from Merchants National Bank to purchase a truck. The loan is to be repaid over a five year period.

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

Year ending December 31:	Bank Note
2008	\$11,191
2009	10,762
2010	10,293
2011	2,153
Total	\$34,399

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, the OPERS member contributed 9.5% and 9%, respectively, of his gross salary and the Township contributed an amount equaling 13.85% and 13.7%, respectively, of the participant's gross salary. The Township has paid all contributions required through December 31, 2007.

7. Risk Management

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

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

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

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

7. Risk Management (Continued)

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

Casualty Coverage

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

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (prior to January 1, 2006) or \$3,000,000 (on or subsequent to January 1, 2006).

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

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.

**LIBERTY TOWNSHIP
HIGHLAND COUNTY**

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

7. Risk Management (Continued)

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006.

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

At December 31, 2007 and 2006, respectively, liabilities above include approximately \$12.5 million and \$11.3 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$11.6 million and \$10.8 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$14,704. 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>	
2006	\$9,149
2007	\$7,352

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.

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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*

Liberty Township
Highland County
95 Moore Road
Hillsboro, Ohio 45133

To the Board of Trustees:

We have audited the financial statements of Liberty Township, Highland County, Ohio (the Township), as of and for the year ended December 31, 2007 and 2006, and have issued our report thereon dated September 12, 2008, wherein we noted the Township prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of the 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.

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We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-003 and 2007-004.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Township's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe none of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated September 12, 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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 through 2007-004.

We did note certain noncompliance or other matters that we reported to the Township's management in a separate letter dated September 12, 2008.

We intend this report solely for the information and use of the management. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 12, 2008

**LIBERTY TOWNSHIP
HIGHLAND 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

Material Noncompliance

Ohio Rev. Code, 5705.36(A)(2), allows subdivisions to request reduced amended certificates of estimated resources upon determination by the fiscal officer that revenue to be collected will be less than the amount in the official certificate of estimated resources. Estimated receipts exceeded actual receipts and the excess was appropriated in some funds as follows:

Fund	Estimated Receipts	Actual Receipts	Variance
2006			
General	\$ 405,039	\$278,788	(126,251)
Ervin Road Public Works	363,000	119,052	(243,948)
2007			
Motor Vehicle License	16,100	16,070	(30)
Debt Service	45,000	11,500	(33,500)
Ervin Road Public Works	209,324	161,099	(48,225)

Additionally the estimated receipts posted to the Township’s accounting system did not always agree with the estimated receipts that were certified by the County Budget Commission on the latest amended certificate. Over estimating receipts could result in spending more funds than received. Not properly posting estimated receipts that were certified by the County Budget Commission can result in inaccurate system records and officials cannot make informed budgetary decisions.

When it is determined receipts are going to be less than originally estimated, an amended certificate should be obtained and appropriations reduced, if necessary. The estimated receipts certified by the Budget Commission on the latest amended certificate are the official receipts that should be entered into the accounting system.

FINDING NUMBER 2007-002

Material Noncompliance

Ohio Rev. Code, Section 5705.39, provides that appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure as certified by the budget commission. Appropriations exceeded the total certified resources in 2006 in the General Fund and in the Debt Service Fund as follows:

Fund	Certified Resources	Appropriations	Variance
General	\$ 611,748	\$618,744	\$(6,996)
Debt Service	0	9,525	9,525

The appropriations entered in the Township’s accounting system did not always agree with the appropriations adopted by resolution of the Board of Trustees in the minute records. If official appropriations adopted by the Board of Trustees are not entered into the accounting system, the system records are inaccurate and officials cannot make informed budgetary decisions.

**FINDING NUMBER 2007-002
(Continued)**

The Board of Trustees should check the latest amended certificate before making any appropriations to determine the total resources certified as available for appropriations. The Board of Trustees is the taxing authority of the Township, and since there is no authority for the Board to delegate the appropriation authority to the Fiscal Officer, only the appropriations made by Board resolution should be entered into the accounting system.

FINDING NUMBER 2007-003

Material Noncompliance/Significant Deficiency

Ohio Rev. Code, Section 5705.41(D), prohibits a subdivision or taxing unit from making any contract or giving 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 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 2007-003
(Continued)**

Contrary to the above requirement, the availability of funds was not certified for 4 of 20 (20%) transactions tested for 2006. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances. As a result of not properly using purchase orders, unrecorded reserve for encumbrances in the amount of \$55,194 in the Capital Projects Fund in 2006 and \$4,644 in the Special Revenue Funds in 2007 were noted. The Township made the adjustments to include the outstanding encumbrances on the financial statements.

We also found that super blanket certificates were used for 30 of the 40 transactions tested for 2006 and 2007. As noted above, super blanket purchase orders should only be used for predictable recurring monthly expenses. Road materials, repairs, and supplies expenditures are generally not of a predictable nature. Regular individual or blanket purchase orders should be used for these type of road materials, repairs and supplies expenditures.

Unless the Township uses the exceptions noted above, prior certification is not only required by statute but also is a key control in the disbursement process to assure that purchase commitments received prior approval. To improve controls over disbursements and to help reduce the possibility of the Township's funds exceeding budgetary spending limitations, we recommend the Fiscal Officer certify that 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 R.C. 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 orders to the proper appropriation code to reduce the available appropriation.

FINDING NUMBER 2007-004

Material Noncompliance/Significant Deficiency

Ohio Admin. Code, Section 117-2-01(D), states, in part, that when designing a public office's system of internal control and the specific control activities, management should consider:

- Ensuring that all transactions are properly authorized in accordance with management's policies; and
- Ensuring that accounting records are properly designed.

During our audit tested we found the following transactions were not posted to the proper account codes:

- Cable franchise fees were reported as Taxes instead of Licenses, Permits and Fees.
- Personal property tax exemption, HB 66 public utilities reimbursements, and some of the homestead and rollback distributions were reported as Taxes instead of Intergovernmental Receipts.
- Road grants from the County Engineer were reported as Other Financing Sources instead of Intergovernmental Receipts.

FINDING NUMBER 2007-004
(Continued)

- Proceeds of the bank note were reported as Other Financing Sources instead of Proceeds of Notes.
- The purchase of the truck and bed were reported as General Government Expenditures instead of Capital Outlay.

Failure to properly post transactions resulted in transactions being inaccurately classified in the annual report. Reclassifications were made on the financial statements to correct the significant items. We recommend that the Fiscal Officer review the chart of accounts in the *Ohio Township Handbook* to assure that items are being posted to the proper account codes.

We did not receive a response from officials to the findings above.

**LIBERTY TOWNSHIP
HIGHLAND 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	R.C. Section 135.18 deposits at one of the local banks not adequately secured	Yes	Corrected
2005-002	R. C. Section 507.04 Records were not accurately maintained	Yes	Corrected



Mary Taylor, CPA
Auditor of State

LIBERTY TOWNSHIP

HIGHLAND 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
OCTOBER 7, 2008**