



Mary Taylor, CPA
Auditor of State



Dave Yost • Auditor of State

February 8, 2011

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 10, 2011. Reports completed prior to that date contain the signature of my predecessor.

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DAVE YOST
Auditor of State

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LIBERTY TOWNSHIP
TRUMBULL COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter.....	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2009.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2008.....	6
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2008.....	7
Notes to the Financial Statements.....	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19

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Mary Taylor, CPA

Auditor of State

Liberty Township
Trumbull County
1315 Churchill-Hubbard Road
Youngstown, Ohio 44505

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

December 30, 2010

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Liberty Township
Trumbull County
1315 Churchill-Hubbard Road
Youngstown, Ohio 44505

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Trumbull County, (the Township) as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Township has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Township's larger (i.e. major) funds separately. While the Township does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require townships to reformat their statements. The Township has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 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, 2009 and 2008 or its changes in financial position for the years then ended.

During 2009, the Township expended \$345,000 from the Fire District Fund to pay police and general operating expenses, including employee salaries. Ohio Rev. Code § 5705.10(H) restricts the use of the Fire District Fund to expenditures related to operations of the fire department. Had this amount been properly expended from the Police District and General Funds, the effect would have been to decrease the cash fund balance of the General Fund by \$95,000 and to increase the cash fund balance of the Special Revenue Fund Type by \$95,000 as of and for the year ended December 31, 2009.

Further, during 2009 and 2008, the Township made inter-fund cash advances from the Police District, Fire District, and Ambulance and Emergency Medical Services Funds to the General Fund. No statutory authority existed to use the monies advanced from these Funds to the General Fund because the purpose of using the money was not the same purpose for which these funds were established. These inter-fund cash advances had not been repaid as of December 31, 2009. Had these inter-fund cash advances been repaid, the effect would have been to decrease the cash fund balance of the General Fund by \$170,160 and to increase the cash fund balance of the Special Revenue Fund Type by \$170,160 as of and for the year ended December 31, 2009.

Also, in our opinion, except for the matters referred to in the two preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective combined fund cash balances and reserves for encumbrances of the General Fund and Special Revenue Fund Type of Liberty Township, Trumbull County, as of December 31, 2009 and 2008, and its respective combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Capital Projects Fund Type and Proprietary Fund Type of Liberty Township, Trumbull County, as of December 31, 2009 and 2008, 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 December 30, 2010, on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

December 30, 2010

LIBERTY TOWNSHIP
TRUMBULL COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$274,457	\$4,344,239		\$4,618,696
Charges for Services	600	209,946		210,546
Licenses, Permits, and Fees	24,974			24,974
Fines and Forfeitures	20,717	23,340		44,057
Intergovernmental	492,827	884,677	\$25,352	1,402,856
Special Assessments		24,915		24,915
Earnings on Investments	3,705			3,705
Miscellaneous	133,429	85,767		219,196
	<u>950,709</u>	<u>5,572,884</u>	<u>25,352</u>	<u>6,548,945</u>
Total Cash Receipts				
	<u>950,709</u>	<u>5,572,884</u>	<u>25,352</u>	<u>6,548,945</u>
Cash Disbursements:				
Current:				
General Government	772,847			772,847
Public Safety	65,560	4,578,334		4,643,894
Public Works	269,804	642,948		912,752
Health	450	13,348		13,798
Conservation - Recreation	151,882			151,882
Capital Outlay		100,873	33,315	134,188
Debt Service:				
Redemption of Principal	400,000	18,005		418,005
Interest and Other Fiscal Charges		22,960		22,960
	<u>1,660,543</u>	<u>5,376,468</u>	<u>33,315</u>	<u>7,070,326</u>
Total Cash Disbursements				
	<u>1,660,543</u>	<u>5,376,468</u>	<u>33,315</u>	<u>7,070,326</u>
Total Receipts Over/(Under) Disbursements	<u>(709,834)</u>	<u>196,416</u>	<u>(7,963)</u>	<u>(521,381)</u>
Other Financing Receipts / (Disbursements):				
Sale of Notes	100,000	209,026		309,026
Transfers-In		6,000	6,000	12,000
Transfers-Out	(7,000)	(5,000)		(12,000)
Advances-In	455,000	115,000		570,000
Advances-Out	(115,000)	(455,000)		(570,000)
Other Financing Sources	193,192	167,529		360,721
Other Financing Uses		(351,496)		(351,496)
	<u>626,192</u>	<u>(313,941)</u>	<u>6,000</u>	<u>318,251</u>
Total Other Financing Receipts / (Disbursements)				
	<u>626,192</u>	<u>(313,941)</u>	<u>6,000</u>	<u>318,251</u>
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	<u>(83,642)</u>	<u>(117,525)</u>	<u>(1,963)</u>	<u>(203,130)</u>
Fund Cash Balances, January 1	<u>111,635</u>	<u>430,518</u>	<u>9,348</u>	<u>551,501</u>
Fund Cash Balances, December 31	<u><u>\$27,993</u></u>	<u><u>\$312,993</u></u>	<u><u>\$7,385</u></u>	<u><u>\$348,371</u></u>
Reserve for Encumbrances, December 31	<u><u>\$2,289</u></u>	<u><u>\$9,668</u></u>	<u><u>\$0</u></u>	<u><u>\$11,957</u></u>

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

**LIBERTY TOWNSHIP
TRUMBULL COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Other Local Taxes	\$284,401	\$4,053,926		\$4,338,327
Charges for Services	900	202,344		203,244
Licenses, Permits, and Fees	105,830			105,830
Fines and Forfeitures	43,820	8,548		52,368
Intergovernmental	504,129	882,272		1,386,401
Special Assessments		25,975		25,975
Earnings on Investments	19,638			19,638
Miscellaneous	399,761	71,450		471,211
	<u>1,358,479</u>	<u>5,244,515</u>	<u>0</u>	<u>6,602,994</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
General Government	773,289			773,289
Public Safety	310,714	4,292,561		4,603,275
Public Works	422,174	709,501		1,131,675
Health	5,870	8,326		14,196
Conservation - Recreation	148,707			148,707
Capital Outlay		76,634	21,481	98,115
Debt Service:				
Redemption of Principal	950,000			950,000
Interest and Other Fiscal Charges		14,154		14,154
	<u>2,610,754</u>	<u>5,101,176</u>	<u>21,481</u>	<u>7,733,411</u>
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	<u>(1,252,275)</u>	<u>143,339</u>	<u>(21,481)</u>	<u>(1,130,417)</u>
Other Financing Receipts / (Disbursements):				
Sale of Notes	1,150,000			1,150,000
Transfers-In		1,000	16,000	17,000
Transfers-Out	(17,000)			(17,000)
Advances-In	975,159	1,020,000		1,995,159
Advances-Out	(1,020,000)	(975,159)		(1,995,159)
Other Financing Sources	91,781		7,512	99,293
Other Financing Uses		(47,512)		(47,512)
	<u>1,179,940</u>	<u>(1,671)</u>	<u>23,512</u>	<u>1,201,781</u>
Total Other Financing Receipts / (Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over / (Under) Cash Disbursements and Other Financing Disbursements	(72,335)	141,668	2,031	71,364
Fund Cash Balances, January 1	183,970	288,850	7,317	480,137
	<u>183,970</u>	<u>288,850</u>	<u>7,317</u>	<u>480,137</u>
Fund Cash Balances, December 31	<u>\$111,635</u>	<u>\$430,518</u>	<u>\$9,348</u>	<u>\$551,501</u>
Reserve for Encumbrances, December 31	<u>\$2,108</u>	<u>\$9,710</u>	<u>\$0</u>	<u>\$11,818</u>

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

**LIBERTY TOWNSHIP
TRUMBULL COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Proprietary Fund Type
	Internal Service
Operating Cash Receipts:	
Charges for Services	
Miscellaneous	
Total Operating Cash Receipts	0
Operating Cash Disbursements:	
Salaries	
Employee Fringe Benefits	
Purchased Services	
Supplies and Materials	
Claims	
Other	
Total Operating Cash Disbursements	0
Operating Income/(Loss)	0
Non-Operating Cash Receipts:	
Other Non-Operating Cash Receipts	
Total Non-Operating Cash Receipts	0
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	51,738
Total Non-Operating Cash Disbursements	51,738
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(51,738)
Net Receipts Over/(Under) Disbursements	(51,738)
Fund Cash Balances, January 1	51,738
Fund Cash Balances, December 31	\$0

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

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**LIBERTY TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

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 the Liberty Township, Trumbull 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, police protection, fire protection and emergency medical services.

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

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. Deposits and Investments

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

The Township values repurchase agreements at cost. The investments in STAR Ohio are recorded at share values reported by the State Treasurer.

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.

**LIBERTY TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 Funds:

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

Police District Fund - This fund receives property tax money to pay for the general operation of the police department.

Fire District Fund - This fund receives property tax money to pay for the general operation of the fire department.

3. Capital Projects 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 Projects Fund:

Permanent Improvement Fund - This fund provides for the maintenance of the Township buildings.

4. Internal Service Fund

This fund accounts for services provided by one department to other departments of the Township. The Township had the following Internal Service Fund:

Volunteer Employee Benefit Account (VEBA) Fund – This fund receives insurance premium payments from other funds to pay medical claims of employees enrolled in the health insurance plan.

The Township terminated their self-insurance plan and closed out the fund during 2008.

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.

**LIBERTY TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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.

A summary of 2009 and 2008 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 DEPOSITS AND INVESTMENTS

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

	2009	2008
Demand deposits	\$96,071	(\$69,722)
Total deposits	96,071	(69,722)
STAR Ohio	61,804	461,223
Repurchase agreement	190,496	160,000
Total investments	252,300	621,223
Total deposits and investments	\$348,371	\$551,501

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

Investments: The Township's financial institution transfers securities to the Township's agent to collateralize repurchase agreements. The securities are not in the Township's name.

Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**LIBERTY TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending 2009 and 2008 follows:

2009 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,698,902	\$1,243,901	(\$455,001)
Special Revenue	6,069,897	5,955,439	(114,458)
Capital Projects	31,352	31,352	0
Total	\$7,800,151	\$7,230,692	(\$569,459)

2009 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,725,407	\$1,669,832	\$55,575
Special Revenue	5,943,485	5,742,632	200,853
Capital Projects	41,852	33,315	8,537
Total	\$7,710,744	\$7,445,779	\$264,965

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$2,426,786	\$2,600,260	\$173,474
Special Revenue	5,388,644	5,245,515	(143,129)
Capital Projects	18,481	23,512	5,031
Total	\$7,833,911	\$7,869,287	\$35,376

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$2,705,829	\$2,629,862	\$75,967
Special Revenue	5,489,428	5,158,398	331,030
Capital Projects	62,700	21,481	41,219
Internal Service	51,738	51,738	0
Total	\$8,309,695	\$7,861,479	\$448,216

**LIBERTY TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

4. PROPERTY TAX

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

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

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

5. DEBT

Debt outstanding at December 31, 2009 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Tax Anticipation Note	\$100,000	5.44%
General Obligation Tax Anticipation Note	200,000	6.43%
General Obligation Note - 911 System	\$96,000	5.44%
General Obligation Note - Police Cars	\$41,008	7.18%
Promissory Note	<u>\$54,013</u>	4.25%
Total	<u><u>\$491,021</u></u>	

The general obligation notes were issued for the purposes of (1) meeting cash flow needs due to a lag in property tax receipts from the County, (2) upgrading the 911 telecommunications system, and (3) purchasing two police cruisers. The Township's taxing authority collateralized the notes.

During 2009 and 2008, the Township issued general obligation tax anticipation notes with maturity dates after the end of the fiscal year which was contrary to Ohio Rev. Code § 133.10(A). Further, the general obligation tax anticipation notes noted above have not been paid by their maturity date which is a violation of the note covenants.

The promissory note was issued to purchase an ambulance. The Township's taxing authority collateralized the note.

**LIBERTY TOWNSHIP
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

5. DEBT – (Continued)

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

Year ending December 31:	GO Note	GO Note	GO Note 911 System	GO Note Police Cars	Promissory Note
2010	\$105,440	\$213,717	\$22,444	\$12,156	\$19,368
2011			22,444	12,156	19,368
2012			22,444	12,156	19,366
2013			22,444	12,156	
2014			22,444		
Total	<u>\$105,440</u>	<u>\$213,717</u>	<u>\$112,220</u>	<u>\$48,624</u>	<u>\$58,102</u>

6. RETIREMENT SYSTEMS

The Township's certified Fire Fighters belong to the Ohio Police and Fire Pension Fund (OP&F). All other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2009 and 2008, OP&F participants contributed 10% of their wages and the Township contributed to OP&F an amount equal to 24% of participants' wages. For 2009 and 2008, OPERS members contributed 10% of their gross salaries, except members in law enforcement, who contributed 10.1% of their gross salaries. For 2009, the Township contributed to OPERS an amount equal to 14% of participants' wages and 17.63% of law enforcement members' wages. For 2008, the Township contributed 14% of participants' wages and 17.40% of law enforcement members' wages. The Township has paid all contributions required through December 31, 2009.

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.

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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of OTARMA and provides underwriting, claims, loss control, risk management, and reinsurance services for OTARMA. OTARMA is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. 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
TRUMBULL COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008**

7. RISK MANAGEMENT – (Continued)

Casualty and Property Coverage

APEEP provides OTARMA with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2009, OTARMA retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Assets	\$38,982,088	\$40,737,740
Liabilities	<u>(12,880,766)</u>	<u>(12,981,818)</u>
Net Assets	<u>\$26,101,322</u>	<u>\$27,755,922</u>

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$12.0 and \$12.1 million of estimated incurred claims payable. The assets above also include approximately \$11.5 and \$10.9 million of unpaid claims to be billed to approximately 950 member governments in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. At December 31, 2009, the Township's share of these unpaid claims collectible in future years is approximately \$49,812.

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>	
2009	\$ 57,921
2008	\$ 69,467

After one year of membership, a member may withdraw on the anniversary of the date of joining OTARMA, if the member notifies OTARMA in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's 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
Trumbull County
1315 Churchill-Hubbard Road
Youngstown, Ohio 44505

To the Board of Trustees:

We have audited the financial statements of Liberty Township, Trumbull County (the Township) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated December 30, 2010 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 processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We qualified our report on the General Fund and Special Revenue Fund Type because the Township expended money from the Fire District Fund to pay for police and general operating expenses contrary to Ohio Rev. Code § 5705.10(H) and because the Township made inter-fund cash advances from the Police District, Fire District, and Ambulance and Emergency Medical Services Funds to the General Fund without statutory authority and had not repaid the advances. 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 for the purpose of opining on the effectiveness of the Township's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Township's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect and timely correct misstatements. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2009-001 and 2009-002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2009-001 to 2009-004.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated December 30, 2010.

The Township's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Township's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of management, the Board of Trustees and others within the Township. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

December 30, 2010

LIBERTY TOWNSHIP
TRUMBULL COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2009 AND 2008

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

FINDING NUMBER 2009-001

Noncompliance Finding/Material Weakness

Finding for Adjustment

Ohio Rev. Code § 5705.10 (H) requires that money paid into any fund shall be used only for the purpose for which such fund is established. During 2009, the Township posted a series of fund balance adjustments to use restricted tax levy money in the Fire District Fund to pay police salaries from the Police District Fund and to pay operating expenses from the General Fund. The adjustment to properly return these monies to the Fire District Fund is as follows:

FUND	FUND BALANCE DECEMBER 31, 2009
General	(\$ 95,000)
Police District	(250,000)
Fire District	345,000

In accordance with the foregoing facts, we hereby issue a finding for adjustment against the General Fund and Police District Fund in the amounts of \$95,000 and \$250,000 respectively, and in favor of the Fire District Fund in the amount of \$345,000.

Township officials have declined to record this adjustment, and the accompanying financial statements do not reflect this adjustment.

Officials' Response

The Township acknowledges the finding and intends to rectify the matter by developing a short term plan and long term plan that will eliminate these types of fiscal shortfalls in the future. Although the Township cannot be specific, the Board of Trustees is aware and considering options to correct the situation. The Township plans to repay the Fire District Fund within the next few months.

FINDING NUMBER 2009-002

Noncompliance Finding/Material Weakness

Finding for Adjustment - Inter-fund Cash Advances

Ohio Rev. Code § 5705.10 requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Although inter-fund cash advances may be a desirable method of resolving cash flow problems without incurring additional interest expense from short-term loans, the intent of this type of cash advance is to require repayment within the current or succeeding year and cash advances are subject to the following requirements:

1. Advances must be clearly labeled as such and must be distinguished from a transfer.

**FINDING NUMBER 2009-002
 (Continued)**

2. In order to advance cash from one fund to another, there must be statutory authority to use the money in the fund advancing the cash ("creditor" fund) for the same purpose for which the fund receiving the cash ("debtor" fund) was established.
3. The reimbursement from the debtor fund to the creditor fund must not violate any restrictions on the use of the money to be used to make the reimbursement, and
4. Advances must be approved by formal resolution of the Board of Trustees which must include both a specific statement that the transaction is an advance of cash and an indication of the money (fund) from which it is expected that repayment will be made.

Furthermore, the aforementioned section requires that all revenue derived from a source other than the general property tax which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose. This section also provides that money paid into any fund shall be used only for the purposes for which such fund is established.

During the years ended December 31, 2009 and December 31, 2008, the Township made inter-fund cash advances from the Police District, Fire District, and Ambulance and Emergency Medical Services Funds to the General Fund. No statutory authority existed to use the monies advanced from these Funds to the General Fund since the purpose of using the money was not the same purpose for which these funds were established. As of December 31, 2009, and the date of this report, these advances had yet to be repaid. The adjustment to properly repay these advances is as follows:

FUND	FUND BALANCE DECEMBER 31, 2009
General	(\$170,160)
Police District	40,000
Fire District	100,000
Ambulance and Emergency Medical Services	30,160

In accordance with the foregoing facts, we hereby issue a finding for adjustment against the General Fund in the amount of \$170,160 and in favor of the Police District Fund, Fire District Fund, and Ambulance and Emergency Medical Services Fund in the amounts of \$40,000, \$100,000, and \$30,160 respectively.

Township officials have declined to record this adjustment, and the accompanying financial statements do not reflect this adjustment.

To resolve the cash flow dilemma and insufficiency of resources in certain funds, we recommend, among other things, that the Board of Trustees consider enhancing revenues and/or reducing expenditures in the affected funds. The Board could also seek a cash transfer from fund(s) with more abundant resources provided officials comply with the provisions of Ohio Rev. Code §§ 5705.14, 5705.15, and 5705.16. Other potential remedies include a tax advance from the County Auditor or securing short term tax anticipation notes.

**FINDING NUMBER 2009-002
(Continued)**

If advances are deemed necessary, management should refer to Auditor of State Bulletin 97-003 for further guidance. As part of the monitoring process, the Board should review financial records to ensure the amounts are reflected in the appropriate funds and there are sufficient funds to meet obligations.

Officials' Response

The Township acknowledges the finding and will refer to Auditor of State Bulletin 97-003 for further guidance.

FINDING NUMBER 2009-003

Noncompliance Finding

Tax Anticipation Note

Ohio Rev. Code § 133.10(A) states, in part, tax anticipation notes must mature no later than the last day of the sixth month after the issue date, and in no case, may they mature after the end of the fiscal year.

During 2009 and 2008, the Township issued three tax anticipation notes for the purpose of meeting cash flow needs due to a lag in funding from Trumbull County. On November 4, 2008, a note was issued in the amount of \$400,000 with a maturity date of May 3, 2009. Also, on December 17, 2008, a note was issued in the amount of \$200,000 with a maturity date of September 15, 2009. Further, on January 30, 2009, a note was issued in the amount of \$100,000 with a maturity date of January 30, 2010. Each of these instances was contrary to the requirements set forth in Ohio Rev. Code § 133.10(A) that notes may not mature after the end of the fiscal year.

Officials' Response

It was not necessary for the Township to borrow money in 2010. The Township has reduced staffing by attrition, in addition to having a hiring freeze. The Township is working with the financial institutions to consolidate our debt.

FINDING NUMBER 2009-004

Noncompliance Finding

Violation of Tax Anticipation Note Covenant

The Township issued tax anticipation notes in the amount of \$200,000 and \$100,000 pursuant to **Ohio Revised Code § 133.10(A)** in anticipation of the levy and collection of taxes for the purpose of providing funds for meeting cash flow needs. The note covenants provided that the \$200,000 note would mature on September 15, 2009 and the \$100,000 note would mature on January 30, 2010.

We noted the Township failed to repay the notes by the dates of maturity as provided in the note covenants. Further testing disclosed the notes have yet to be repaid as of the date of this report.

By failing to pay the notes by the date of maturity, the Township has incurred additional interest costs and may further incur fines and/or penalties. We recommend the Township Fiscal Officer and Legal Counsel review all requirements of any note covenant to ensure compliance.

Officials' Response

See response to Finding 2009-003 above.

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Dave Yost • Auditor of State

LIBERTY TOWNSHIP

TRUMBULL 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
FEBRUARY 8, 2011**