



Dave Yost • Auditor of State

LIBERTY TOWNSHIP
HARDIN COUNTY

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Dave Yost • Auditor of State

Liberty Township
Hardin County
110 E. Buckeye Avenue, P.O. Box 327
Ada, Ohio 45810

To the Board of Trustees:

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

October 9, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Liberty Township
Hardin County
110 E. Buckeye Avenue, P.O. Box 327
Ada, Ohio 45810

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Hardin County, (the Township) as of and for the years ended December 31, 2011 and 2010. 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(A) mandates 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 requires 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 governments 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, 2011 and 2010 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, 2011, 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 as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of Liberty Township, Hardin County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 the Township adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

During 2010, the Township changed its financial statement presentation methods to conform to presentation methods the Auditor of State prescribes.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2012, 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.



Dave Yost
Auditor of State

October 9, 2012

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Other Local Taxes	\$80,759	\$56,616	\$97,394	\$234,769
Charges for Services		25,911		25,911
Licenses, Permits and Fees		29,268		29,268
Intergovernmental	123,430	112,806	17,187	253,423
Earnings on Investments	615			615
Miscellaneous	1,917	10,724	22,845	35,486
Total Cash Receipts	<u>206,721</u>	<u>235,325</u>	<u>137,426</u>	<u>579,472</u>
Cash Disbursements:				
Current:				
General Government	78,227	1,545	2,426	82,198
Public Safety		97,229		97,229
Public Works		83,066		83,066
Health		52,812		52,812
Capital Outlay	220	18,685		18,905
Debt Service:				
Principal Retirement			125,609	125,609
Interest and Fiscal Charges			9,391	9,391
Total Cash Disbursements	<u>78,447</u>	<u>253,337</u>	<u>137,426</u>	<u>469,210</u>
Excess of Receipts Over (Under) Disbursements	<u>128,274</u>	<u>(18,012)</u>		<u>110,262</u>
Other Financing Receipts (Disbursements):				
Transfers In		54,126		54,126
Transfers Out	(54,126)			(54,126)
Total Other Financing Receipts (Disbursements)	<u>(54,126)</u>	<u>54,126</u>		
Net Change in Fund Cash Balances	74,148	36,114		110,262
Fund Cash Balances, January 1	<u>99,896</u>	<u>79,720</u>		<u>179,616</u>
Fund Cash Balances, December 31:				
Restricted		115,834		115,834
Unassigned	174,044			174,044
Fund Cash Balances, December 31	<u>\$174,044</u>	<u>\$115,834</u>	<u>\$0</u>	<u>\$289,878</u>

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

LIBERTY TOWNSHIP
HARDIN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE
PRIVATE PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Receipts:

Earnings on Investments	\$18
Fund Cash Balance, December 31	<u>12,920</u>
Fund Cash Balance, December 31	<u><u>\$12,938</u></u>

See accompanying notes to the basic financial statements.

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property and Other Local Taxes	\$80,467	\$101,173	\$51,836		\$233,476
Charges for Services		18,977			18,977
Licenses, Permits and Fees		22,974			22,974
Intergovernmental	86,376	122,042	10,749		219,167
Earnings on Investments	962	15			977
Miscellaneous	1,232	39,790	22,845		63,867
Total Cash Receipts	<u>169,037</u>	<u>304,971</u>	<u>85,430</u>		<u>559,438</u>
Cash Disbursements:					
Current:					
General Government	88,988	486	430		89,904
Public Safety		87,577			87,577
Public Works	7,848	100,396			108,244
Health		102,551			102,551
Capital Outlay		79,739		\$450,000	529,739
Debt Service:					
Principal Retirement			78,938		78,938
Interest and Fiscal Charges			6,062		6,062
Total Cash Disbursements	<u>96,836</u>	<u>370,749</u>	<u>85,430</u>	<u>450,000</u>	<u>1,003,015</u>
Excess of Receipts Over (Under) Disbursements	<u>72,201</u>	<u>(65,778)</u>		<u>(450,000)</u>	<u>(443,577)</u>
Other Financing Receipts (Disbursements):					
Sale of Bonds				450,000	450,000
Transfers In		73,576			73,576
Transfers Out	(73,576)				(73,576)
Total Other Financing Receipts (Disbursements)	<u>(73,576)</u>	<u>73,576</u>		<u>450,000</u>	<u>450,000</u>
Net Change in Fund Cash Balances	(1,375)	7,798			6,423
Fund Cash Balances, January 1	<u>101,271</u>	<u>71,922</u>			<u>173,193</u>
Fund Cash Balances, December 31	<u>\$99,896</u>	<u>\$79,720</u>	<u>\$0</u>	<u>\$0</u>	<u>\$179,616</u>
Reserve for Encumbrances, December 31	<u>\$254</u>	<u>\$619</u>			<u>\$873</u>

See accompanying notes to the basic financial statements.

LIBERTY TOWNSHIP
HARDIN COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGE IN FUND CASH BALANCE
PRIVATE PURPOSE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

Cash Receipts:	
Earnings on Investments	\$53
Cash Disbursements:	
Other	<u>18</u>
Operating Income	35
Fund Cash Balance, December 31	<u>12,885</u>
Fund Cash Balance, December 31	<u><u>\$12,920</u></u>

See accompanying notes to the basic financial statements.

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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, Hardin County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township also has an elected Township Fiscal Officer. The Township provides road and bridge maintenance, cemetery maintenance, and fire services. The Township is a member of Ada Liberty Joint Ambulance District which provides emergency medical services to the Township.

The Township participates in two jointly governed organizations and the Ohio Township Association Risk Management Authority (OTARMA). Notes 7 and 8 to the financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organizations:

Ada-Liberty Joint Ambulance District Board which provides ambulance services within the District.

Hardin County Regional Planning Commission which makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economic, and governmental characteristics, functions and services of the County.

Public Entity Risk Pool:

(Ohio Township Association Risk Management Authority (OTARMA) provides property and casualty coverage for its 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. Deposits

Demand deposits and certificate of deposit are valued at cost.

The Township's accounting basis includes investments as assts. 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's investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

Cemetery Fund – This fund receives money from various charges to provide services and maintain cemetery grounds.

3. Debt Service Funds

These funds account for resources the Township accumulates to pay bond debt. The Township had the following Debt Service Fund:

\$450,000 Bond Debt - This fund receives tax levy money and other restricted proceeds to pay the \$450,000 fire truck bond debt.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects. The Township had the following Capital Projects Fund:

Fire Truck- This fund receives bond proceeds restricted for the purchase of a new fire truck.

5. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Township's own programs. The Township's private purpose trust funds are for the benefit of certain individuals. The Township had the following significant private purpose trust fund.

Lacey Trust - This fund receives interest money to pay for the maintenance of the Lacey family lot and perpetual care.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 un-cumbered 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 re-appropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Township must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Non-spendable

The Township classifies assets as non-spendable when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Trustees can *commit* amounts via formal action (resolution). The Township must adhere to these commitments unless the Trustees amend the resolution.

Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Township Trustees or a Township official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Township applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. 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.

2. EQUITY IN POOLED DEPOSITS

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

	2011	2010
Demand deposits	\$248,035	\$134,936
Certificates of deposit	30,317	30,151
Total deposits	278,352	165,087
STAR Ohio	24,464	27,449
Total investments	24,464	27,449
Total deposits and investments	\$302,816	\$192,536

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

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

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$198,903	\$206,721	\$ 7,818
Special Revenue	355,066	289,451	(65,615)
Debt Service *		137,426	137,426
Fiduciary Fund	35	18	(17)
Total	<u>\$554,004</u>	<u>\$633,616</u>	<u>\$79,612</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 92,246	\$132,573	(\$ 40,327)
Special Revenue	391,004	253,337	137,667
Debt Service *		137,426	(137,426)
Fiduciary Fund	325		325
Total	<u>\$483,575</u>	<u>\$523,336</u>	<u>(\$39,761)</u>

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 115,439	\$ 169,037	\$53,598
Special Revenue	458,665	378,547	(80,118)
Debt Service *		85,430	85,430
Capital Outlay **	450,000	450,000	
Fiduciary Fund	34	53	19
Total	<u>\$1,024,138</u>	<u>\$1,083,067</u>	<u>\$58,929</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 206,500	\$ 170,666	\$35,834
Special Revenue	387,453	371,368	16,085
Debt Service *		85,430	(85,430)
Capital Outlay **	450,000	450,000	
Fiduciary Fund	325	18	307
Total	<u>\$1,044,278</u>	<u>\$1,077,482</u>	<u>(\$33,204)</u>

*Noncompliance with Ohio Rev. Code Section 5705.09(E) and with the debt agreement resulted in audit adjustments to establish the required Debt Service Fund. Since this Fund is the result of audit adjustments there is no related budgetary noncompliance.

**The Township did not establish a capital projects fund to account for the proceeds of a bond issue which violated Ohio Rev. Code Section 5705.10(E). Audit adjustments were recorded to establish the required Capital Projects Fund. The authorization of a bond issue is deemed appropriated under Ohio Rev. Code Section 5705.41(A) therefore this table reflects budgeted activity.

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

The Township had some funds with disbursements greater than appropriations which violated Ohio Rev. Code Section 5705.41(B). The Township recorded some receipts in the wrong fund which violated Ohio Rev. Code Section 5705.10(D).

Some interest earnings were not recorded in the Private Purpose Trust Funds which violated Ohio Rev. Code Section 5705.131. Not all transfers from the General Fund were approved as required by Ohio Rev. Code Section 5705.14(E).

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.

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, 2001 was as follows:

	Principal	Interest Rate
General Obligation Bonds	\$245,453	2.65%

The Township issued \$450,000 general obligation bonds on April 22, 2010 to finance the purchase of a fire truck with an interest rate of 2.62% for a term of 4 years. Amortization of this debt, including interest, is scheduled as follows:

Year ending December 31:	General Obligation Bonds
2012	\$135,000
2013	135,000
Total	\$270,000

The Township did not establish a debt service fund for payment of the debt and the related tax levy proceeds are not sufficient to pay the debt payments which is in violation of the debt agreement.

6. RETIREMENT SYSTEM

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

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

6. RETIREMENT SYSTEM (Continued)

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent for 2011 and 2010, respectively. The Township has paid all contributions required through December 31, 2011.

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.

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, 2010, 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Assets	\$35,086,165	\$35,855,252
Liabilities	(9,718,792)	(10,664,724)
Net Assets	<u>\$25,367,373</u>	<u>\$25,190,528</u>

At December 31, 2011 and 2010, respectively, the liabilities above include approximately \$9.1 and \$9.9 million of estimated incurred claims payable. The assets above also include approximately \$8.6 and \$9.5 million of unpaid claims to be billed to approximately 938 member governments in the future, as of December 31, 2011 and 2010, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2011, the Township's share of these unpaid claims collectible in future years is approximately \$11,000.

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010
(Continued)**

7. RISK MANAGEMENT (Continued)

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.

Contributions to OTARMA	
2012	2011
<u>\$16,125</u>	<u>\$16,064</u>

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.

8. JOINTLY GOVERNED ORGANIZATIONS

A. Hardin County Regional Planning Commission

The Hardin County Regional Planning Commission (the Commission) is a joint venture between the County, the Municipalities, and the Townships within the County. The degree of control exercised by any participating government is limited to its representation on the Board. The Board is comprised to twenty-seven members, any of which may hold any other public office. The Township is represented by one member.

The Commission makes, studies, maps, plans, recommendations and reports concerning the physical, environmental, social economic, and government characteristics, functions, and services of the County. Each participating government may be required to contribute an assessment per capita, according to the latest federal census, in any calendar year in which the revenue is needed. Financial information can be obtained from Mark Doll, Director, at One Courthouse Square, Suite 130, Kenton, Ohio 43326.

B. Ada-Liberty Join Ambulance District

A three-member Board of Trustees governs the District. The Board of Trustees consists of one member appointed by each subdivision plus one member appointed by the other two members. The subdivisions are Village of Ada and Liberty Township.

Operating funds for the District are provided from property taxes assessed against property owners located within the District and charges assessed for services of the District. Financial information can be obtained from Nancy Buchler, Fiscal Officer, 530 North Gilbert Street, Ada, Ohio 45810.



Dave Yost • 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
Hardin County
110 E. Buckeye Avenue, P.O. Box 327
Ada, Ohio 45810

To the Board of Trustees:

We have audited the financial statements of Liberty Township, Hardin County, (the Township) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated October 9, 2012, wherein we noted the Township changed its financial statement presentation methods to conform to accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and adopted the provisions of Governmental Accounting Standards Board Statement No. 54 for the year ended December 31, 2011. 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 Auditor of State's independence 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) mandates 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 the purpose of 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 a 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 2011-01 through 2011-05 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 2011-02 through 2011-08.

We also noted certain matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated October 9, 2012.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

October 9, 2012

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2011-01

Material Weakness -Accuracy of Financial Reporting

The Township should have procedures and controls in place to prevent and detect errors in the financial statements and records to help provide meaningful information to users. The Township's 2011 and 2010 accounting records and financial statements had the following classification errors:

<u>Fund</u>	<u>Year</u>	<u>Amount</u>	<u>Township Classification</u>	<u>Ohio Township Handbook Classification</u>
General	2011	\$ 691	Other Financing Sources	Miscellaneous Revenue
General	2011	\$ 4,700	Taxes	Intergovernmental Receipts
SR – Fire District	2011	\$ 2,002	Taxes	Miscellaneous Revenue
SR – Levy Fire	2011	\$ 3,003	Taxes	Miscellaneous Revenue
SR – Levy Fire	2011	\$125,609	Public Safety	Debt Principal Retirement
SR – Levy Fire	2011	\$ 9,391	Public Safety	Interest
SR – Levy Fire	2011	\$ 22,845	Charges for Services	Miscellaneous Revenue
SR - Cemetery	2011	\$ 1,000	Licenses, Permits & Fees	Miscellaneous Revenue
General	2010	\$ 1,778	Taxes	Intergovernmental
General	2010	\$ 7,848	Transfer Out	Public Works
SR – Fire District	2010	\$ 2,311	Taxes	Intergovernmental
SR – Fire District	2010	\$ 1,382	Intergovernmental	Taxes
SR – Levy Fire	2010	\$ 78,938	Public Safety	Debt Principal Retirement
SR – Levy Fire	2010	\$ 6,062	Public Safety	Interest
SR – Levy Fire	2010	\$ 2,666	Taxes	Intergovernmental
SR - Cemetery	2010	\$ 7,576	Transfer In	Capital Outlay

In addition, the December 31, 2011 and 2010 bank to book reconciliations had un-reconciled variances of \$1,226 and \$215, respectively. For both years the bank balance was greater than the book balance. The Township failed to prepare bank to book reconciliations each month during 2011 and 2010 which may have contributed to the variances. The accompanying financial statements have been adjusted to correctly classify this financial activity. In addition, General Fund Miscellaneous Receipts were increased in the accompanying financial statements and the accounting records were adjusted to eliminate the un-reconciled bank to book balance.

The failure to correctly classify financial activity in the accounting records and financial statements and to ensure that the bank and book balances reconcile, may impact a user's understanding of the financial operations, the ability to make sound financial decisions, the ability to comply with budgetary laws, and may result in the material misstatement of the financial statements. In addition, un-reconciled bank to book balances and undetected recording errors may result in irregularities not being detected in a timely manner by the Trustees.

The Fiscal Officer should review the Ohio Township Handbook, UAN Manual, Auditor of State Bulletins, and other resources for guidance in correctly classifying receipts and disbursements. In addition, the Fiscal Officer should prepare monthly bank to book reconciliations and timely resolve any variances. The Fiscal Officer should provide the Trustees with the monthly reconciliations along with other financial reports. The Trustees should review the reconciliations and financial reports to help identify variances, errors and/or irregularities.

FINDING NUMBER 2011-02

Material Weakness / Noncompliance Citation

Ohio Rev. Code Section 5705.09(E), states that each subdivision shall establish a special bond fund for each bond issue. **Section 8 of the April 19, 2010 Resolution Providing For The Issuance And Sale Of \$450,000 Of Bonds To Pay Costs Of Acquiring A New Fire Truck, Together With The Necessary Equipment Therefore And Appurtenances Thereto**, requires the Township to place the tax levy proceeds into a Bond Retirement Fund. Further, the agreement states that the amount levied on the taxable property within the township be sufficient to pay the debt charges on the Bonds.

In 2010, the Township issued bonds for the purchase a fire truck but did not establish a separate bond fund to account for the tax levy receipts and related auditor/treasurer fees along with the principal and interest payments on the bond. Instead the Township accounted for the debt service payments in an existing Special Revenue Special Levy Fire Fund which was being used to record the proceeds of tax levy passed for the purpose of providing and maintaining fire apparatus, appliances, addition to building, and sites therefore, including but not limited to the purchase of a new fire engine. Since this levy is not sufficient to cover the debt obligations, donations restricted to the purchase of the new fire truck have been received by the Township.

The failure to establish the required Debt Service Fund could result in the Township not having adequate resources to meet debt obligations.

The accompanying financial statements have been adjusted to present a Debt Service Fund. The Township has adjusted their accounting records to include a Debt Service Fund for subsequent years.

The reclassification of the debt activity, restricted donations, and a proportionate share of the tax levy and auditor/treasurer fees from the Special Revenue Special Levy Fund to a Debt Service Fund had the following impact on the financial statements:

2011	Debt Service Fund Type		Special Revenue Fund Type	
	Debit	Credit	Debit	Credit
General Government	\$ 2,426			\$ 2,426
Debt Service – Principal	\$125,609			\$125,609
Debt Service – Interest	\$9,391			\$ 9,391
Taxes		\$97,394	\$97,394	
Intergovernmental		\$17,187	\$17,187	
Miscellaneous		\$22,845		
Charges for Services			\$22,845	
2010				
General Government	\$ 430			\$ 430
Debt Service – Principal	\$ 78,938			\$78,938
Debt Service – Interest	\$ 6,062			\$ 6,062
Taxes		\$51,836	\$51,836	
Intergovernmental		\$10,749	\$10,749	
Miscellaneous		\$22,845		
Charges for Services			\$22,845	

The Township should establish a debt service fund for future debt payments. The Fiscal Officer and Trustees should review each debt agreement along with the Ohio Compliance Supplement to help assure the establishment of required funds.

FINDING NUMBER 2011-03

Material Weakness / Noncompliance Citation

Ohio Rev. Code, Section 5705.10(D), states in part, that all revenue derived from a source other than the general property tax and which the law prescribes shall be used for a particular purpose is to be paid into a special fund for such purpose.

The Township's accounting records and financial statements contained the following recording errors:

2011

- Motor Vehicle License Fees in the amount of \$263 and \$1,350, were recorded in the General Fund and in the Special Revenue Gasoline Tax Fund, respectively, instead of the Special Revenue Motor Vehicle License Tax Fund.
- Fire contract receipts in the amount of \$3,566 were recorded in the Special Revenue Special Levy Fire Fund instead of Special Revenue Fire District Fund.

2010

- Tax proceeds in the amount of \$2,073 were recorded in the Special Revenue Fire District Fund instead of the Special Revenue Special Levy Fire Fund.

The failure to record receipts in the correct fund may impact, a user's understanding of the financial operations, the ability to make sound financial decisions, the ability to comply with budgetary laws, may result in the illegal expenditure of restricted money, and may result in the material misstatement of the financial statements. In addition, such undetected errors may result in irregularities not being detected in a timely manner by the Trustees.

The accounting records and accompanying financial statements have been adjusted to reflect these receipts and disbursements in the correct funds.

The Fiscal Officer should review the Ohio Township Handbook, UAN Manual, Auditor of State Bulletins, and other resources for guidance in correctly recording receipts. The Trustees should also become familiar with these resources and periodically review the accounting ledgers to help identify recording errors. This will allow for the correction of the errors in a timely manner, reduce the potential for illegal use of funds, and give a more accurate presentation of the activity within each fund.

FINDING NUMBER 2011-04

Material Weakness / Noncompliance Citation

Ohio Revised Code 5705.10(E) states, in part, all proceeds from the sale of public obligations, except premium and accrued interest, shall be paid into a special fund for the purpose of such issue. In 2010, the Township sold bonds, in the amount of \$450,000, for the purchase of a new fire truck. The proceeds of the bonds and subsequent disbursement were recorded in the Special Revenue Special Levy Fire Fund instead of establishing a separate Capital Projects Fund.

The failure to establish a separate fund to account for bond proceeds increases the risk that restricted money will not be spent according to the debt agreement.

The accompanying financial statements have been adjusted to reflect the bond proceeds and subsequent disbursement in a Capital Projects Fund.

The Fiscal Officer should review the Ohio Township Handbook, UAN Manual, Auditor of State Bulletins, and other resources such as debt agreements for guidance in the establishment of required funds. In addition, the Trustees should become familiar with these resources and periodically review the accounting ledgers to help assure all required funds have been established.

FINDING NUMBER 2011-05

Material Weakness / Noncompliance Citation

Ohio Rev. Code Section 5705.131, states in part, that investment earnings on the principal of a trust fund established for maintaining donations shall be credited to the fund. During 2011 and 2010, the Township allocated \$18 and \$41, respectively, of interest earnings to the General Fund instead of the Private Purpose Trust Funds.

By not allocating interest earnings to the Private Purpose Trust Funds there is an increased risk that the Township will not comply with the trust agreements. The accounting records and accompanying financial statements have been adjusted to reflect interest earnings in the Private Purpose Trust Funds.

The Township should develop an interest allocation plan to help assure that interest earned on the principal of the Private Purpose Trust Funds is allocated to each fund. The Trustees should monitor the activity of the Trust Funds to help assure compliance.

FINDING NUMBER 2011-06

Noncompliance Citation

Ohio Rev. Code Section 5705.41(B) provides that no subdivision or taxing unit is to expend money unless it has been appropriated. At December 31, 2011 the Township had expenditures exceeding appropriations by \$40,327 and \$9,781 in the General and Special Revenue Motor Vehicle License Tax Funds, respectively; and at December 31, 2010 expenditures exceeded appropriations by \$46,373, and \$17,627 in the Special Revenue Fire District and Special Revenue Cemetery Funds, respectively.

The Township minutes did not reflect the Trustees' review of budgetary information each month during 2011 and 2010 which may have contributed to the inability to detect expenditures in excess of appropriations. The failure to maintain expenditures within the current level of appropriation for each fund may impact the Township's ability to meet the financial obligations and could result in deficit spending by the Township.

The Fiscal Officer should provide monthly budget versus actual reports to the Trustees. The reports should be reviewed to help identify negative budgetary trends.

FINDING NUMBER 2011-07

Noncompliance Citation

Ohio Rev. Code Section 5705.14(E) states money may be transferred from the general fund to any other fund of the subdivision. OAG Opinion 89-075 requires a governing board resolution passed by a simple majority of the board members to transfer funds.

During 2011, \$22,500 and \$23,625 was transferred from the General Fund to the Special Revenue Motor Vehicle License Tax Fund and Special Revenue Special Levy Fire Fund, respectively. There was no evidence that the transfers were approved by the Trustees or that they were included as part of the permanent appropriation resolution.

During December 2010, the Board approved to transfer \$6,000 from the General Fund to the Special Revenue Cemetery Fund and the Special Revenue Gasoline Tax Fund. During 2011, the actual amount transferred was only \$4,000 to each fund. There was no subsequent resolution to approve the decrease in the transfer amount.

**FINDING NUMBER 2011-07
(Continued)**

Failure to obtain Board approval for the transfers could lead to activity that is not within Board intentions.

The Board of Trustees should approve all transfers. If the amount transferred is different than the original amount approved, an additional resolution should be approved to indicate the actual amount that was necessary to be transferred.

FINDING NUMBER 2011-08

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) requires that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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 subdivision can authorize the drawing of a warrant for the payment of the amount due. The subdivision or taxing entity has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

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

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates for an amount established by resolution or ordinance adopted by the legislative authority against any specific line item account and not running beyond the current 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 subdivision or taxing entity 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 one line item appropriation.

**FINDING NUMBER 2011-08
(Continued)**

The Township did not properly certify the availability of funds prior to the purchase commitment for 44% of the expenditures tested in 2011 and 2010, and there was no evidence that the Township followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending and negative cash fund balances. Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval.

In addition there were four transactions that utilized "regular" purchase orders when a blanket purchase orders or "super" blanket purchase order would have been more appropriate since the obligations were for recurring expenditures. The Township also had not established by resolution or ordinance an amount for Blanket Certificates.

To improve controls over disbursements; to help reduce the possibility of the Township's funds exceeding budgetary spending limitations; and to reduce the risk of financial statement reporting errors; the Township's Fiscal Officer should certify that the funds are or will be available prior to the obligation of the Township. When prior certification is not possible, "then and now" certification should be used. In addition, the Township should follow the requirements for the use of blanket certificates and establish by resolution the amount for blanket certificates.

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

**LIBERTY TOWNSHIP
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2009-01	Ohio Rev. Code Section 5705.36(A)(2) – Allows subdivision to request increased/reduced amended of estimated resources	Yes	
2009-02	Ohio Rev. Code 5705.41 (B) – expenditures cannot exceed appropriations	No	Repeated as 2011-06

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Dave Yost • Auditor of State

LIBERTY TOWNSHIP

HARDIN 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
NOVEMBER 27, 2012**