



Dave Yost • Auditor of State

**LIBERTY TOWNSHIP
KNOX COUNTY
DECEMBER 31, 2017 AND 2016**

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Dave Yost • Auditor of State

REPORT ON THE FINANCIAL STATEMENTS, INTERNAL CONTROL, AND COMPLIANCE

Liberty Township
Knox County
8019 New Delaware Road
Mount Vernon, Ohio 43050

To the Board of Trustees:

We have selectively tested certain accounts, financial records, reports and other documentation of Liberty Township, Knox County, (the Township), as of and for the years ended December 31, 2017 and 2016. These procedures were designed to satisfy the audit requirements of Section 117.11, Ohio Rev. Code, and Section 117-4-02, Ohio Admin. Code. Our engagement was not designed as a basis to opine on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinions on these matters.

Internal Control Over Financial Reporting

Certain of the aforementioned tests relate to internal control over financial reporting. The results of those tests may allow us to identify internal control deficiencies. An internal control deficiency 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, whether caused by error or fraud.

Our internal control tests were not designed to identify all internal control deficiencies that might exist. Therefore, unidentified weaknesses may exist. However, we consider findings 2017-002 and 2017-006 reported in the Schedule of Findings to be internal control deficiencies management and those charged with governance should address.

Compliance and Other Matters

We also tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Township, noncompliance with which could directly and materially affect the determination of financial statement amounts. The results of our tests disclosed instances of noncompliance we believe could directly and materially affect the determination of financial statement amounts; that we reported in the Schedule of Findings as items 2017-001 and 2017-003 through 2017-006.

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
Columbus, Ohio

October 24, 2018

Liberty Township
Knox County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements
and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2017

	General	Special Revenue	Debt Service	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$34,868	\$298,032	\$0	\$332,900
Licenses, Permits and Fees	10,523	4,500	0	15,023
Intergovernmental	26,492	124,475	0	150,967
Earnings on Investments	26	22	0	48
Miscellaneous	11,001	456,855	0	467,856
<i>Total Cash Receipts</i>	<u>82,910</u>	<u>883,884</u>	<u>0</u>	<u>966,794</u>
Cash Disbursements				
Current:				
General Government	63,633	4,260	0	67,893
Public Safety	0	262,080	0	262,080
Public Works	0	189,426	0	189,426
Health	0	35,684	0	35,684
Capital Outlay	0	2,925	0	2,925
Debt Service:				
Principal Retirement	0	6,302	4,473	10,775
Interest and Fiscal Charges	0	482	217	699
<i>Total Cash Disbursements</i>	<u>63,633</u>	<u>501,159</u>	<u>4,690</u>	<u>569,482</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>19,277</u>	<u>382,725</u>	<u>(4,690)</u>	<u>397,312</u>
Other Financing Receipts (Disbursements)				
Transfers In	0	0	4,820	4,820
Transfers Out	0	(4,820)	0	(4,820)
Other Financing Sources	6,842	0	0	6,842
<i>Total Other Financing Receipts (Disbursements)</i>	<u>6,842</u>	<u>(4,820)</u>	<u>4,820</u>	<u>6,842</u>
<i>Net Change in Fund Cash Balances</i>	26,119	377,905	130	404,154
<i>Fund Cash Balances, January 1</i>	<u>6,303</u>	<u>61,028</u>	<u>458</u>	<u>67,789</u>
Fund Cash Balances, December 31				
Restricted	0	444,944	588	445,532
Assigned	4,869	0	0	4,869
Unassigned (Deficit)	27,553	(6,011)	0	21,542
<i>Fund Cash Balances, December 31</i>	<u>\$32,422</u>	<u>\$438,933</u>	<u>\$588</u>	<u>\$471,943</u>

See accompanying notes to the financial statements

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Liberty Township, Knox 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 and cemetery maintenance. The Township contracts with the City of Mount Vernon to provide fire services and to provide ambulance services.

The Township participates in a public entity risk pool. Note 7 to the financial statements provides additional information for this entity. This organization is:

Ohio Township Association Risk Management Authority

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Township are presented below:

General Fund - The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Township for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Township had the following significant Special Revenue Funds:

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

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

Motor Vehicle License Tax Fund The motor vehicle license tax fund accounts for and reports that portion of motor vehicle license registration fees restricted for maintenance and repair of roads within the Township.

Cemetery Fund – This fund receives property tax money for the care and maintenance of the cemeteries within Liberty Township.

Special Levy (Fire) Fund – This fund receives property tax money for the payment of Fire and EMS services from the City of Mount Vernon.

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

Debt Service Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Township had the following significant Debt Service fund:

General Bond Note Retirement Fund - This fund is used to retire outstanding debt.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

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. Unencumbered appropriations lapse at year-end.

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 approve estimated resources.

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 2017 budgetary activity appears in Note 4.

Deposits and Investments

The Township maintains an interest earning checking account.

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.

Capital Assets

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

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (Continued)

Fund Balance

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:

Nonspendable The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

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.

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.

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.

Note 3 – Compliance

Contrary to Ohio law, at December 31, 2017, the Road & Bridge fund had a cash deficit balance of \$6,011.

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$69,466	\$64,530	\$4,936
Special Revenue	548,727	507,085	41,642
Debt Service	4,819	4,690	129
Total	\$623,012	\$576,305	\$46,707

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$56,788	\$89,752	\$32,964
Special Revenue	397,589	883,884	486,295
Debt Service	4,819	4,820	1
Total	\$459,196	\$978,456	\$519,260

Note 5 – Deposits

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

	2017
Demand deposits	\$471,943

Deposits are insured by the Federal Depository Insurance Corporation.

Note 6 – Property Taxes

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.

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

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 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. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. 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

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2017, OTARMA retained \$350,000 for casualty claims and \$250,000 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, 2017.

	2017
Assets	\$40,010,732
Liabilities	8,675,465
Net Position	\$31,335,267

At December 31, 2017 the liabilities above include approximately \$8.0 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,016 member governments in the future, as of December 31, 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Township's share of these unpaid claims collectible in future years is approximately \$1,672.

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.

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Risk Management (Continued)

<u>2017 Contributions to OTARMA</u>
\$3,801

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.

Note 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2017.

Note 9 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

Note 10– Debt

Debt outstanding at December 31, 2017 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Equipment Bonds	\$15,442	3%
OPWC Loan	17,903	0%
Total	<u><u>\$33,345</u></u>	

In 2015, the Township issued equipment bonds to finance the purchase of road equipment.

In 2012, the Township incurred a loan with the Ohio Public Works Commission to finance a portion of the Tucker Road Project.

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 10– Debt (Continued)

Amortization

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

Year ending December 31:	Equipment	
	Bonds	OPWC loan
2018	5,506	5,968
2019	5,507	5,968
2020	5,507	5,967
Total	<u>\$16,520</u>	<u>\$17,903</u>

Note 11 – Subsequent Events

On November 6, 2018, a levy requesting an additional .90 mils for the purchase of road equipment passed.

Liberty Township
Knox County, Ohio
Combined Statement of Cash Receipts, Cash Disbursements
and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2016

	General	Special Revenue	Debt Service	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$34,227	\$77,883	\$0	\$112,110
Licenses, Permits and Fees	4,508	3,905	0	8,413
Intergovernmental	24,972	117,679	0	142,651
Earnings on Investments	3	3	0	6
Miscellaneous	6,544	5,311	0	11,855
<i>Total Cash Receipts</i>	<u>70,254</u>	<u>204,781</u>	<u>0</u>	<u>275,035</u>
Cash Disbursements				
Current:				
General Government	56,104	0	0	56,104
Public Safety	0	0	0	0
Public Works	303	140,751	0	141,054
Health	0	20,825	0	20,825
Capital Outlay	0	1,317	0	1,317
Debt Service:				
Principal Retirement	0	5,054	5,565	10,619
Interest and Fiscal Charges	0	857	0	857
<i>Total Cash Disbursements</i>	<u>56,407</u>	<u>168,804</u>	<u>5,565</u>	<u>230,776</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>13,847</u>	<u>35,977</u>	<u>(5,565)</u>	<u>44,259</u>
Other Financing Receipts (Disbursements)				
Transfers In	0	0	5,565	5,565
Transfers Out	(5,565)	0	0	(5,565)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(5,565)</u>	<u>0</u>	<u>5,565</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	8,282	35,977	0	44,259
<i>Fund Cash Balances, January 1</i>	<u>(1,979)</u>	<u>25,051</u>	<u>458</u>	<u>23,530</u>
Fund Cash Balances, December 31				
Restricted	0	84,322	458	84,780
Assigned	2,746	0	0	2,746
Unassigned (Deficit)	3,557	(23,294)	0	(19,737)
<i>Fund Cash Balances, December 31</i>	<u>\$6,303</u>	<u>\$61,028</u>	<u>\$458</u>	<u>\$67,789</u>

See accompanying notes to the financial statements

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 1 – Reporting Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Liberty Township, Knox 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 and cemetery maintenance.

The Township participates in a jointly governed organization and a public entity risk pool. Notes 7 and 11 to the financial statements provide additional information for these entities. These organizations are:

Ohio Township Association Risk Management Authority
Central Ohio Joint Fire District

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

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Township's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types.

Fund Accounting

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

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

Motor Vehicle License Tax Fund The motor vehicle license tax fund accounts for and reports that portion of motor vehicle license registration fees restricted for maintenance and repair of roads within the Township.

Cemetery Fund – This fund receives property tax money for the care and maintenance of the cemeteries within Liberty Township.

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

Debt Service Funds These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The Township had the following significant Debt Service fund:

General Bond Note Retirement Fund - This fund is used to retire outstanding debt.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

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. Unencumbered appropriations lapse at year-end.

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 approve estimated resources.

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 2016 budgetary activity appears in Note 4.

Deposits

The Township maintains an interest earning checking account.

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.

Capital Assets

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

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 2 - Summary of Significant Accounting Policies (Continued)

Fund Balance

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:

Nonspendable The Township classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

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.

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.

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.

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.

Note 3 – Compliance

Contrary to Ohio law, at December 31, 2016, the Road and Bridge and the Gasoline Tax funds had cash deficit balances of \$21,754 and \$1,540, respectively.

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$46,781	\$70,254	\$23,473
Special Revenue	184,323	204,781	20,458
Debt Service	5,565	5,565	0
Total	\$236,669	\$280,600	\$43,931

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$71,949	\$62,652	\$9,297
Special Revenue	196,932	170,127	26,805
Debt Service	5,565	5,565	0
Total	\$274,446	\$238,344	\$36,102

Note 5 – Deposits

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

	2016
Demand deposits	\$67,789

Deposits are insured by the Federal Depository Insurance Corporation.

Note 6 – Property Taxes

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.

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

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 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. York Risk Pooling Services, Inc. (formally known as American Risk Pooling Consultants, Inc.) (York or Management), functions as the administrator of the Pool and provides underwriting claims, loss control, risk management, and reinsurance services for the Pool. 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

The Pool is a member of American Public Entity Excess Pool (APEEP), which is also administered by York. APEEP provides the Pool with an excess risk-sharing program. Under this arrangement, OTARMA retains insured risks up to an amount specified in the contracts. At December 31, 2016, OTARMA retained \$350,000 for casualty claims and \$250,000 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, 2016.

	2016
Assets	\$38,473,283
Liabilities	8,244,140
Net Position	\$30,229,143

At December 31, 2016 the liabilities above include approximately \$7.4 million of estimated incurred claims payable. The assets above also include approximately \$6.9 million of unpaid claims to be billed to approximately 1,010 member governments in the future, as of December 31, 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Township's share of these unpaid claims collectible in future years is approximately \$1,776.

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.

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 7 - Risk Management (Continued)

<u>2016 Contributions to OTARMA</u>
\$3,946

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.

Note 8 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Township contributed an amount equaling 14%, of participants' gross salaries. The Township has paid all contributions required through December 31, 2016.

<i>Retirement Rates</i>	<i>Year</i>	<i>Member Rate</i>	<i>Employer Rate</i>
<i>OPERS – Local</i>	<i>2012-2016</i>	<i>10%</i>	<i>14%</i>

Note 9 – Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016.

Note 10– Debt

Debt outstanding at December 31, 2016 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Equipment Bonds	\$20,250	3%
OPWC Loan	23,871	0%
Total	<u><u>\$44,121</u></u>	

In 2015, the Township issued equipment bonds to finance the purchase of road equipment.

In 2012, the Township incurred a loan with the Ohio Public Works Commission to finance a portion of the Tucker Road Project.

Liberty Township
Knox County
Notes to the Financial Statements
For the Year Ended December 31, 2016

Note 10– Debt (Continued)

Amortization

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

Year ending December 31:	Equipment Bonds	OPWC loan
2017	\$5,506	\$5,968
2018	5,507	5,968
2019	5,507	5,968
2020	5,507	5,967
Total	\$22,027	\$23,871

Note 11 - Jointly Governed Organizations

The Central Ohio Joint Fire District (the District) is a jointly governed organization pursuant to Ohio Revised Code Section 505.371. The District was formed in 2000 and consists of Hilliar, Milford, and Liberty Townships and the Village of Centerburg. The District consists of a Trustee from each Township, a Council Member from the Village, and an at-large member appointed by vote of the District Board. Revenues are generated from a 5.5 mil operating levy.

Note 12 – Subsequent Events

As of January 1, 2017 the Township has contracted its Fire and EMS Service from the City of Mount Vernon. The Township is no longer a member of the Central Ohio Joint Fire District as of December 31st, 2016. A levy was passed by the voters in November 2016 for a 4.5 mil property tax to pay for the contract with the City of Mount Vernon. The Township will receive its portion (27.1%) of the assets from the Central Ohio Joint Fire District in 2017. This money will be used to pay the City of Mount Vernon the 1.0 mil difference, since the Township was paying the Central Ohio Joint Fire District 5.5 mil.

On November 6, 2018, a levy requesting an additional .90 mils for the purchase of road equipment passed.

LIBERTY TOWNSHIP
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND DECEMBER 31, 2016

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING NUMBER 2017-001

Investment Continuing Education Requirements – Noncompliance

Ohio Rev. Code § 135.22(B) states, in part, that to enhance the background and working knowledge of treasurers in investments, cash management, and ethics, the treasurer of state shall provide annual continuing education programs for treasurers. A treasurer annually shall complete the continuing education programs described, unless the treasurer annually provides a notice of exemption. Section 135.22(A)(1) defines a treasurer as “any person whose duties include making investment decisions with respect to the investment or deposit of interim moneys” for the purposes of section 135.22.

The Fiscal Officer did not attend the annual continuing education programs provided by the Treasurer of State or complete and send an annual exemption to the Treasurer of State in fiscal years 2016 or 2017.

By the Fiscal officer not completing annual continuing education programs, the Fiscal officer might not be aware of changes required in the State of Ohio, and might not know how to properly handle said changes.

We recommend the Fiscal Officer attend the annual training or complete an annual exemption and submit the exemption to the Treasurer of State.

FINDING NUMBER 2017-002

Financial Statement Presentation – Internal Control Deficiency

In our letter of arrangement, management acknowledged its responsibility for preparing the financial statements and other financial information, including related disclosures and selecting and applying accounting principles in accordance with the Township’s financial reporting framework.

Sound financial reporting is the responsibility of the Fiscal Officer and Board of Trustees and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. In addition, GASB Statement No. 54 requires fund balance be divided into one of five classifications based on the extent to which constraints are imposed upon the resources. A monitoring system should be in place to prevent or detect material misstatements for the accurate presentation of the Township’s financial statements.

Reclassifications were posted to the Township’s December 31, 2016 and 2017 financial statements for the General Fund, Special Revenue (SR) fund type and Debt Service fund type. The following posting errors were noted:

**LIBERTY TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND DECEMBER 31, 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2017-002 (Continued)

Financial Statement Presentation – Internal Control Deficiency (Continued)

FUND	POSTING ERROR	2017	2016
General	Rollback posted as taxes and should be intergovernmental	\$4,892	\$5,255
Road & Bridge (SR)	Rollback posted as taxes and should be intergovernmental	\$8,571	\$5,254
Cemetery (SR)	Rollback posted as taxes and should be intergovernmental	\$2,463	\$5,254
Special Levy (SR)	Rollback posted as taxes and should be intergovernmental	\$4,662	\$0
General	Subsequent year appropriations and encumbrances posted as unrestricted fund balance and should be assigned fund balance.	\$4,869	\$2,746
Gasoline Tax (SR)	Debt principal payments posted as capital outlay	\$6,302	\$3,100
Gasoline Tax (SR)	Debt interest payments posted as capital outlay	\$482	\$571
Cemetery (SR)	Debt principal payments posted as capital outlay	\$0	\$1,550
Cemetery (SR)	Debt interest payments posted as capital outlay	\$0	\$286
Permissive Tax (SR)	Debt principal payment posted as capital outlay	\$0	\$404
Debt Service	Reclassify a portion of debt principal payment to interest	\$217	\$0
Cemetery (SR)	Reclassify withholding payments from Health Other Expenditures to Health Personal Services	\$3,895	\$0
Gasoline Tax (SR)	Reclassify negative fund balance from restricted fund balance to unassigned fund balance	\$0	\$1,540
Road & Bridge (SR)	Reclassify negative fund balance from restricted fund balance to unassigned fund balance	\$0	\$21,754
Cemetery (SR)	Reclassify donation from intergovernmental to miscellaneous	\$110	\$0

In addition to the adjustments listed above, we also identified an additional misstatement in the amount of \$200 that we have brought to the Township's attention.

We also noted financial system coding issues in the General and Special Revenue funds related to reclassifications needed between the *Other* and *Salaries* object codes for withholding payments that were material, but had no effect on the financial statements based on the financial statements being presented at the function level.

**LIBERTY TOWNSHIP
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND DECEMBER 31, 2016
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2017-002 (Continued)

Financial Statement Presentation – Internal Control Deficiency (Continued)

Additionally, the Township's notes to the financial statements did not include a Compliance note showing negative fund balances or a postemployment benefits note. GASB Cod. 2300.106 (g and n) indicate these disclosures are essential to the fair presentation in the basic financial statements.

Adjustments have been made to the accompanying financial statements to include all essential footnote disclosures.

Not reporting fund balance restrictions in accordance with GASB Statement 54, resulted in the financial statements requiring reclassifications to appropriately reflect fund balance constraints. Not posting receipts and disbursements accurately to the ledgers resulted in the financial statements requiring audit reclassifications; furthermore, inaccurate accounting records could make it difficult for the Board of Trustees to effectively monitor the Township's activities or identify misstatements or errors in a timely manner.

The Township should review GASB Cod. 2300.106 when preparing its financial statements to ensure all applicable footnote disclosures are included. Without accurate and complete notes to the financial statements the Township is at risk of omitting information important to understanding the financial position of the Township.

We recommend the Township's Fiscal Officer take steps to ensure the accurate posting of all transactions to the ledgers. In addition, the Township should also review AOS Bulletin 2011-004 for guidance on GASB Statement No. 54 requirements and the Ohio Township Handbook. By exercising accuracy in recording financial activity, the Township can reduce posting errors and increase the reliability of the financial data throughout the year.

FINDING NUMBER 2017-003

Negative Fund Balances – Noncompliance

Ohio Rev. Code § 5705.10(I) states that "money paid into any fund shall be used only for the purposes for which such fund is established". The existence of a deficit fund balance indicates money from another fund or funds was used to pay obligations of funds that carry the deficit fund balance.

At December 31, 2016, the Township had negative fund balances in the Gasoline Tax Fund in the amount of (\$1,540) and the Road and Bridge Fund in the amount of (\$21,754).

At December 31, 2017, the Township had a negative fund balance in the Road and Bridge Fund in the amount of (\$6,011).

Negative fund balances have led to noncompliance. In addition, not ensuring that expenditures are made within appropriated levels could result in misrepresentation of fund balances.

The Township Fiscal Officer and Board should monitor fund balances to ensure that expenditures are made within appropriated levels of available funds to prevent negative fund balances.

LIBERTY TOWNSHIP
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND DECEMBER 31, 2016
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2017-004

Minutes – Noncompliance

Ohio Rev. Code § 121.22(C) states, in part, that the minutes of a regular or special meeting of any public body shall be promptly prepared, filed, and maintained and shall be open to public inspection.

There was a special meeting on August 5, 2016 based on review of documentation in the August 17, 2016 minutes, but no minutes were available for inspection. In reviewing the 2016 meeting minutes, 15 of the 28 meetings were not documented as being approved.

Not adequately maintaining a complete record of Township meetings can result in violations of the Ohio Revised Code.

We recommend the Board of Trustees ensure accuracy in the recording of the minutes and that all approvals are documented.

FINDING NUMBER 2017-005

Unallowable Transfers– Noncompliance

Ohio Rev. Code § 5705.14 requires a resolution of the taxing authority passed by an affirmative vote of two-thirds of the members (except a simple majority is sufficient for transfers from the general fund).

In fiscal year 2016, the Township transferred \$5,565 from the General fund to the Debt Service fund, but did not formally approve the transfer.

In fiscal year 2017, the Township transferred \$1,836 from the Cemetery fund to the Debt Service fund, but did not formally approve the transfer.

Although **Ohio Rev. Code § 5705.14** expressly permits these transfers, they must be approved. Audit adjustments were not made for these transfers.

Failure to receive Board approval for transfers prior to transfers being made could result in illegal transfers or misuse of funds.

We recommend the Township follow **Ohio Rev. Code §§ 5705.14-5705.16** and that the Township approve the transfers by resolution and record the approval in the minutes.

LIBERTY TOWNSHIP
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND DECEMBER 31, 2016
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2017-006

Payroll Postings, Withholdings, and 1099's – Noncompliance/Internal Control Deficiency

Ohio Rev. Code § 145.47(B) states “the head of each state department, institution, board, and commission, and the fiscal officer of each local authority subject to this chapter, shall transmit to the system for each contributor subsequent to the date of coverage an amount equal to the applicable percent of each contributor's earnable salary at such intervals and in such form as the system shall require. The head of each state department and the fiscal officer of each local authority subject to this chapter shall transmit promptly to the system a report of contributions at such intervals and in such form as the system shall require, showing thereon all the contributions and earnable salary of each contributor employed, together with warrants, checks, or electronic payments covering the total of such deductions. A penalty shall be added when such report, together with warrants, checks, or electronic payments to cover the total amount due from the earnable salary of all amenable employees of such employer, is filed thirty or more days after the last day of such reporting period. The system, after making a record of all receipts under this division, shall deposit the receipts with the treasurer of state for use as provided by this chapter.”

26 U.S.C. § 3402 states in general, except as otherwise provided in this section, every employer making payment of wages shall deduct and withhold upon such wages a tax determined in accordance with tables or computational procedures prescribed by the Secretary.

26 U.S.C. § 3403 states that the employer shall be liable for the payment of the tax required to be deducted and withheld under this chapter, and shall not be liable to any person for the amount of any such payment.

Additionally, **Ohio Rev. Code § 5747.07(B)** states, in part, that every employer required to deduct and withhold state income taxes shall file a return and shall pay the amount required by law. For an employer whose actual or required payments were less than two thousand dollars during the twelve month period ending on the thirtieth day of June of the preceding calendar year, the employer shall make the payment of undeposited taxes for each calendar quarter during which they were required to be withheld no later than the last day of the month following the last day of March, June, September, and December each year. The employer shall file the return prescribed by the tax commissioner with the payment.

26 CFR § 1.6041-1 states that you must file Form 1099-MISC, Miscellaneous Income, to report payments of \$600 or more to persons not treated as employees (for example, independent contractors) for services performed for your trade or business.

The Township Fiscal Officer received a payment of \$108 for wages that were underpaid during January and February 2016. This payment was improperly recorded in the ledgers, and as a result, the W-2 was inaccurate. In addition, the Township did not remit the respective payroll taxes and retirement on this amount.

**LIBERTY TOWNSHIP
KNOX COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2017
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING NUMBER 2016-006 (continued)

Payroll Postings and Withholdings – Noncompliance/Internal Control Deficiency (continued)

We noted the Township paid the Zoning Inspector \$770 in 2016 and \$735 in 2017 for zoning permit meetings and zoning permits issued. From the documentation provided we were unable to determine whether 1099-MISC forms were filed in either year. These amounts were not included in his taxable salary in 2016 or 2017.

Failure to remit withholdings in a timely manner or create 1099-MISC forms could result in the Township incurring failure to file and failure to pay penalties and interest.

We recommend the Township review postings for payroll transactions to ensure accurate reporting of wages on W-2's, tax and retirement returns and payments. We also recommend, the Township review amounts paid to vendors at year end and complete a 1099-MISC if payments are \$600 or more. We also recommend the Township review the relationship of the above mentioned parties to determine whether they are independent contractors or employees.

This matter will be referred to the IRS, Ohio Department of Taxation, and OPERS.

Township's Response

We did not receive a response from the Township to these findings.

**LIBERTY TOWNSHIP
KNOX COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017 AND 2016**

Finding Number	Finding Summary	Status	Additional Information
2015-001 2014-001	Minutes ORC 121.22(G)	Partially Corrected	Township did not record approval of all meeting minutes. Reissued as finding 2017-004.
2015-002 2014-002	Timely Deposits ORC 9.38	Fully Corrected	N/A
2015-003 2014-003	Filing of Annual Financial Reports ORC 117.38	Fully Corrected	N/A
2015-004 2014-004	Continuing Education Requirements ORC 135.22(B)	Not Corrected	Fiscal Officer has not attended annual education programs or completed the annual exemption. Reissued as finding 2017-001.
2015-005 2014-005	Deficient Accounting Records Ohio Admin Code 117-2-02	Fully Corrected	N/A
2015-006 2014-006	Appropriations Exceeding Estimated Resources ORC 5705.39	Fully Corrected	N/A
2015-007 2014-007	Expenditures Exceeding Appropriations ORC 5705.41(B)	Fully Corrected	N/A
2015-008 2014-009	Payment of Taxes Deducted and Withheld 26 USC 3402 and 3403	Partially Corrected	Fiscal Officer had small catch-up payment processed toward their total payroll, that was not properly coded as payroll therefore withholdings were not properly processed. Reissued as finding 2017-006.
2015-009 2014-010	OPERS Withholding, Payment and Reporting ORC 145.47(B)	Partially Corrected	Fiscal Officer had small catch-up payment processed toward their total payroll, that was not properly coded as payroll therefore withholdings were not properly processed. Reissued as finding 2017-006.
2015-010 2014-011	Maintaining Supporting Documentation for Disbursements ORC 149.351, 149.38 through 149.42	Fully Corrected	N/A
2015-011 2014-012	Public Records Training ORC 109.43(B)	Fully Corrected	N/A
2015-012 2014-013	Fraud Reporting System ORC 117.103(B)(1)	Fully Corrected	N/A
2015-013 2014-014	Negative Fund Balances/Use of Revenues ORC 5705.10(I) and ORC 5705.10(D)	Partially Corrected	No posting errors related to ORC 5705.10(D). Negative fund balances remained. Reissued as finding 2017-003.

**LIBERTY TOWNSHIP
KNOX COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017 AND 2016
(Continued)**

Finding Number	Finding Summary	Status	Additional Information
2015-014 2014-015	1099-MISC- 26 CFR § 1.6041-1 and 26 CFR § 31.3121(d)-1	Not Corrected	Township paid one vendor/employee for zoning permit meetings and zoning permits issued. The amounts paid in 2016 and 2017 were not included in payroll and there was no evidence of a 1099 being issued. Reissued as finding 2017-006.
2015-015	Permanent Appropriations ORC 5705.38(A)	Fully Corrected	N/A
2015-016 2014-016	Fiscal Responsibility/Monitoring of Financial Reports	Fully Corrected	N/A
2015-017 2014-017	Township Policies	Fully Corrected	N/A
2015-018 2014-018	Payroll Expenditures	Fully Corrected	N/A



Dave Yost • Auditor of State

LIBERTY TOWNSHIP

KNOX 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 29, 2018**