



**Auditor of State
Betty Montgomery**

LIBERTY TOWNSHIP
BUTLER COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Liberty Township
Butler County
6400 Princeton Road
Liberty Township, Ohio 45011

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Butler County, Ohio (the Township) as of and for the years ended December 31, 2002 and 2001. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Township as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2004 on our consideration of the Township's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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Betty Montgomery
Auditor of State

April 20, 2004

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:					
Local Taxes	\$184,149	\$3,520,619	\$117,071		\$3,821,839
Intergovernmental	845,401	820,611			1,666,012
Special Assessments	400			\$175,385	175,785
Charges for Services		121,726			121,726
Licenses, Permits, and Fees	87,288	172,656			259,944
Fines, Forfeitures, and Penalties	13,898				13,898
Earnings on Investments	171,023	4,964		2,182	178,169
Other Revenue	26,024	18,386		68,656	113,066
Total Cash Receipts	1,328,183	4,658,962	117,071	246,223	6,350,439
Cash Disbursements:					
Current:					
General Government	554,045	94,149			648,194
Public Safety		2,359,564			2,359,564
Public Works	94	344,965		199,647	544,706
Health	12,732	9,553			22,285
Conservation - Recreation	196,335				196,335
Debt Service:					
Redemption of Principal			153,392		153,392
Interest and Fiscal Charges			83,446	3,520	86,966
Capital Outlay	219,030	566,243		2,904,006	3,689,279
Total Cash Disbursements	982,236	3,374,474	236,838	3,107,173	7,700,721
Total Receipts Over/(Under) Disbursements	345,947	1,284,488	(119,767)	(2,860,950)	(1,350,282)
Other Financing Receipts and (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Notes				2,565,508	2,565,508
Transfers-In			252,044	56,467	308,511
Transfers-Out	(116,441)	(57,087)		(134,983)	(308,511)
Total Other Financing Receipts/(Disbursements)	(116,441)	(57,087)	252,044	2,486,992	2,565,508
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	229,506	1,227,401	132,277	(373,958)	1,215,226
Fund Cash Balances, January 1	1,628,246	4,492,711	2,706	564,443	6,688,106
Fund Cash Balances, December 31	\$1,857,752	\$5,720,112	\$134,983	\$190,485	\$7,903,332
Reserve for Encumbrances, December 31	\$250,990	\$226,020	\$0	\$86,796	\$563,806

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

LIBERTY TOWNSHIP
BUTLER COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - NONEXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Nonexpendable Trust</u>
Operating Cash Receipts:	
Earnings on Investments	<u>\$298</u>
Total Operating Cash Receipts	<u>298</u>
Fund Cash Balances, January 1	<u>12,030</u>
Fund Cash Balances, December 31	<u><u>\$12,328</u></u>

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

**LIBERTY TOWNSHIP
BUTLER COUNTY**

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

	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts:					
Local Taxes	\$185,856	\$3,324,529	\$37,106		\$3,547,491
Intergovernmental	573,806	718,406			1,292,212
Special Assessments	6,371			\$149,114	155,485
Charges for Services		103,761			103,761
Licenses, Permits, and Fees	75,903	137,558			213,461
Fines, Forfeitures, and Penalties	22,648				22,648
Earnings on Investments	220,801	6,445		28,108	255,354
Other Revenue	44,490	31,699		46,144	122,333
Total Cash Receipts	1,129,875	4,322,398	37,106	223,366	5,712,745
Cash Disbursements:					
Current:					
General Government	305,102	91,177			396,279
Public Safety		1,784,843			1,784,843
Public Works	98	315,930		159,165	475,193
Health	11,650	9,406			21,056
Conservation - Recreation	183,959				183,959
Debt Service:					
Redemption of Principal			132,248		132,248
Interest and Fiscal Charges			64,100		64,100
Capital Outlay	280,842	317,522		1,878,092	2,476,456
Total Cash Disbursements	781,651	2,518,878	196,348	2,037,257	5,534,134
Total Receipts Over/(Under) Disbursements	348,224	1,803,520	(159,242)	(1,813,891)	178,611
Other Financing Receipts and (Disbursements):					
Proceeds from Sale of Public Debt:					
Sale of Bonds				1,500,000	1,500,000
Sale of Notes				375,000	375,000
Transfers-In			159,242	68,000	227,242
Transfers-Out	(184,892)	(42,350)			(227,242)
Other Sources			2,706		2,706
Total Other Financing Receipts/(Disbursements)	(184,892)	(42,350)	161,948	1,943,000	1,877,706
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	163,332	1,761,170	2,706	129,109	2,056,317
Fund Cash Balances, January 1	1,464,914	2,731,541	0	435,334	4,631,789
Fund Cash Balances, December 31	\$1,628,246	\$4,492,711	\$2,706	\$564,443	\$6,688,106
Reserve for Encumbrances, December 31	\$125,000	\$4,895	\$0	\$225,199	\$355,094

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

LIBERTY TOWNSHIP
BUTLER COUNTY

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

	<u>Nonexpendable Trust</u>
Operating Cash Receipts:	
Earnings on Investments	<u>\$248</u>
Total Operating Cash Receipts	<u>248</u>
Fund Cash Balance, January 1	<u>11,782</u>
Fund Cash Balance, December 31	<u><u>\$12,030</u></u>

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

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Liberty Township, Butler County, Ohio (the Township), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Township is directed by a publicly-elected three-member Board of Trustees. The Township provides road and bridge maintenance, cemetery maintenance, fire protection, and emergency medical services. The Township contracts with the Butler County Sheriff to provide police protection.

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

B. Basis of Accounting

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

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

C. Cash and Investments

Certificates of deposit and U.S. Treasury Notes are valued at cost. Money market mutual funds are recorded at share cost.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

Fire Department Fund - This fund receives property tax money to account for the daily activities of the Fire Department.

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Police Fund – This fund receives property tax money to pay for police protection in the Township.

3. Debt Service Funds

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness. The Township had the following significant Debt Service Funds:

Bond Retirement Fund - This fund receives property tax money to retire general obligation debt of the Township.

Land Acquisition Note Fund – This fund receives property tax money to retire the land acquisition note.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Township had the following significant Capital Project Funds:

Parkland Fund – This fund is used to account for expenditures related to the acquisition and development of a park in the Township.

Lighting Assessment Fund – This fund is used to account for lighting assessments levied against the benefiting property owners.

5. Fiduciary Fund (Nonexpendable Trust Fund)

This fund is used to account for resources restricted by legally binding trust agreements. The Township had the following significant Fiduciary Fund:

Cemetery Bequest Fund – This nonexpendable trust fund is used to account for the maintenance of cemetery plots.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Township's basis of accounting.

2. EQUITY IN POOLED CASH AND INVESTMENTS

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

	2002	2001
Demand deposits	\$2,623,575	\$2,933,432
Certificates of deposit	5,000	5,000
Total deposits	2,628,575	2,938,432
U.S. Treasury Securities	5,283,801	3,723,601
Money Market Funds	3,284	38,103
Total investments	5,287,085	3,761,704
Total deposits and investments	\$7,915,660	\$6,700,136

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

Investments: The Township invests in a U.S. Bank investment account which invests in U.S. Treasury securities. The Township's securities are held in book entry form by the financial institution's trust in the Township's name.

Investments in the money market mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,115,057	\$1,328,183	\$213,126
Special Revenue	4,169,500	4,658,962	489,462
Debt Service	2,890,693	369,115	(2,521,578)
Capital Projects	594,294	2,868,198	2,273,904
Nonexpendable Trust	200	298	98
Total	\$8,769,744	\$9,224,756	\$455,012

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,683,356	\$1,349,667	\$333,689
Special Revenue	4,186,832	3,657,581	529,251
Debt Service	2,816,156	236,838	2,579,318
Capital Projects	968,833	3,328,952	(2,360,119)
Nonexpendable Trust	200	0	200
Total	\$9,655,377	\$8,573,038	\$1,082,339

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,170,607	\$1,129,875	(\$40,732)
Special Revenue	3,684,200	4,322,398	638,198
Debt Service	196,348	199,054	2,706
Capital Projects	2,118,000	2,166,366	48,366
Nonexpendable Trust	200	248	48
Total	\$7,169,355	\$7,817,941	\$648,586

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,837,007	\$1,091,543	\$745,464
Special Revenue	3,314,048	2,566,123	747,925
Debt Service	196,348	196,348	0
Capital Projects	2,525,628	2,262,456	263,172
Nonexpendable Trust	400	0	400
Total	\$7,873,431	\$6,116,470	\$1,756,961

Contrary to Ohio Rev. Code, Section 5705.41(B), in 2002 budgetary expenditures exceeded appropriation authority in the Police Fund by \$59,903 and the Capital Projects Road Improvement Fund by \$2,479,307.

4. PROPERTY TAX

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

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, 2002 was as follows:

	Principal	Interest Rate
Township Building Bonds	\$1,385,000	3.55%
Land Acquisition Note	271,217	4.55%
Parkland Acquisition BAN	1,000,000	2.16%
Parkland Acquisition BAN, Series B	1,561,988	6.00%
Total	\$4,218,205	

The Township Building Bonds were issued to finance the construction of a maintenance building and salt storage building. The bonds are collateralized solely by the Township's taxing authority.

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. DEBT (Continued)

The Land Acquisition Note was issued to finance the cost of acquiring the land for the construction of a fire station in the Township. The note is collateralized solely by the Township's taxing authority.

The Parkland Acquisition BAN and Parkland Acquisition BAN, Series B, were issued to finance the cost of acquiring parkland for the development of township parks. The bond anticipation notes are collateralized solely by the Township's taxing authority.

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

	Township Building Bonds	Land Acquisition Note	Parkland Acquisition BAN	Parkland Acquisition BAN, Series B
Year ending December 31:				
2003	\$120,056	\$84,701	\$273,821	\$1,021,540
2004	117,994	84,701	273,821	
2005	115,904	84,701	273,821	
2006	118,759	42,350	273,821	
2007	116,359		273,821	
2008-2012	585,879		456,368	
2013-2017	588,194			
2018-2022	347,000			
Total	<u>\$2,110,145</u>	<u>\$296,453</u>	<u>\$1,825,473</u>	<u>\$1,021,540</u>

6. RETIREMENT SYSTEMS

The Township's certified full-time Fire Fighters belong to the Police and Fire Pension Fund (OP&F). Part-time Fire Fighters contribute to Social Security. Other employees belong to the Public Employees Retirement System (PERS) of Ohio. OP&F and PERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, members of OP&F participants contributed 10% of their wages. The Township contributed an amount equal to 24% of their wages to OP&F. PERS members contributed 8.5% of their gross salaries. The Township contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Township has paid all contributions required through December 31, 2002.

7. RISK MANAGEMENT

Risk Pool Membership

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

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

7. RISK MANAGEMENT (Continued)

Casualty Coverage

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

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

Property Coverage

OTARMA retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$700,000 for 2001 and \$1,250,000 for 2002. The Travelers Indemnity Company reinsures losses exceeding \$10,000 if the annual aggregate is reached and all specific losses exceeding \$100,000. APEEP's Operating Fund and Guarantee Fund pay for losses and loss adjustment expenses should they exceed operating contributions.

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

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:

<u>Casualty Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$23,757,036	\$23,703,776
Liabilities	(9,197,512)	(9,379,003)
Retained earnings	\$14,559,524	\$14,324,773

<u>Property Coverage</u>	<u>2002</u>	<u>2001</u>
Assets	\$6,596,996	\$5,011,131
Liabilities	(1,204,326)	(647,667)
Retained earnings	\$5,392,670	\$4,363,464

8. SUBSEQUENT EVENT

The Township issued \$2,000,000 in Fire Housing Construction Bonds on August 12, 2003.

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**Auditor of State
Betty Montgomery**

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

Liberty Township
Butler County
6400 Princeton Road
Liberty Township, Ohio 45011

To the Board of Trustees:

We have audited the accompanying financial statements of Liberty Township, Butler County, Ohio (the Township) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated April 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-004. We also noted an immaterial instance of noncompliance that we have reported to management of the Township in a separate letter dated April 20, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Township's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Township's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-002 through 2002-006.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Township in a separate letter dated April 20, 2004.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

April 20, 2004

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

FINDING NUMBER 2002-001

Finding for Recovery – Repaid During Audit

On January 26, 2004, during a meeting between the Auditor of State, Roger Reynolds, Liberty Township Clerk, and Christine Maticic, Liberty Township Trustee President/Acting Administrator, we were informed that In January 2004 the Township Clerk was reviewing the Township’s Nextel cellular bills and noticed that there was one cellular phone bill [phone # (513) 276-0971] that had a user name of “Patty Patty” as the individual to whom the phone number was assigned. The Clerk and Trustee President/Acting Administrator informed us that they knew there was no such employee of the Township named “Patty Patty”.

Review of payments made by the Township disclosed that a total of \$233.87 was paid to Nextel for cellular phone number (513) 276-0971 belonging to a “Patty Patty” per the Nextel invoices. These charges began on October 2, 2003 when this new phone service began. The charges related to this phone are not for a proper public purpose since this phone was not maintained or used by an employee of the Township.

Review of the Nextel invoices disclosed that the former Township Administrator, Barry Tiffany, had marked these invoices as approved for payment. A letter from the Nextel vendor stated that Mr. Tiffany had called to obtain this phone, and it was shipped to the Township Administration building.

Type of Charge for Phone # (513) 276-0971	Amount	Initials on Nextel statement designating bill approval
October 2003 phone charge	\$97.02	Approved by Barry Tiffany
October 2003 purchase of a phone	49.99	Approved by Barry Tiffany
November 2003 phone charge	48.76	Approved by Barry Tiffany
December 2003 phone charge	51.36	No documented approval
January 2004 credit for canceling phone service	(13.26)	
Total Nextel Charges for Phone # (513) 276-0971	\$233.87	

Mr. Barry Tiffany repaid the Township \$233.87, to the credit of the General Fund, on April 27, 2004.

The Township should establish procedures to better monitor cell phone usage and equipment purchases. Also, the Township should verify that bonds are updated when a new person is hired or takes office.

FINDING NUMBER 2002-002

Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.41(D), requires that no subdivision or taxing unit 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 that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate needs be signed only by the subdivision’s fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

This Section also provides for two exceptions to the above requirements:

- a. Then and Now Certificates- If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Board of Trustees may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
- b. If the amount involved is less than \$1,000 dollars (\$3,000 effective on 4/07/03), the Clerk may authorize payment through a Then and Now Certificate without affirmation of the Board of Trustees, if such expenditure is otherwise valid.

The Township did not properly certify the availability of funds for purchase commitments for twenty-five percent (25%) of the expenditures tested and did not use one of the exceptions above. Failure to properly certify the availability of funds can result in overspending of funds and negative cash fund balances. Effort should be made by the Township to properly utilize the encumbrance method of accounting by certifying the availability of funds on properly approved purchase orders. We recommend the Township obtain approved purchase orders, which contain the Clerk’s certification indicated by a signature that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2002-003

Noncompliance/Reportable Condition

Ohio Rev. Code, Section 5705.41(B), states no subdivision or taxing unit is to expend money unless it has been appropriated. Expenditures exceeded appropriations during the audit period for the following funds:

Date	Fund	Appropriation	Expenditures	Variance
12/31/02	Police Fund	\$961,995	\$1,021,898	\$(59,903)
12/31/02	Capital Projects Road Improvement	\$100,000	2,579,307	\$(2,479,307)

FINDING NUMBER 2002-003
(Continued)

Making expenditures outside of the appropriations limit could result in negative fund balances. The Township Trustees should monitor expenditures and determine that no expenditure is made unless there are sufficient appropriations to cover the expenditure.

FINDING NUMBER 2002-004

Noncompliance/Reportable Condition

Ohio Rev. Code, Section 149.351, establishes guidelines against the destruction or damage of records. All records are the property of the public office and shall not be removed, destroyed, mutilated, transferred, or otherwise damaged or disposed of, in whole or in part, except as provided by law or under the rules adopted by the records commissions provided for under Ohio Revised Code, Sections 149.38 to 149.42.

The following items could not be located:

- 4th quarter 2002 cemetery bequest bank statements
- 2002 certificate of deposit statements
- supporting documentation for “other” adjustments on the 12/31/01 and 12/31/02 bank reconciliations
- 2001 & 2002 payroll taxes remittance reports
- 2002 W-2 forms for the Clerk and Trustees

Failure to maintain accounting records may adversely affect the decisions of management and could result in inaccurate financial reporting. Efforts should be made by the Township to maintain all accounting records. We recommend that a written inventory of the records noting the description and location of each record be maintained.

FINDING NUMBER 2002-005

Reportable Condition

Review of the Township’s vendor files disclosed that the Township had cellular phone service through Cingular Wireless Services and Nextel. A master list was not maintained by the Township documenting all the cell phones for which the Township was responsible and the related employees to whom they were issued. Lack of a master list makes it difficult for the Township to ascertain that all the cellular phone vendor payments are for proper public Township business. It also can lead to the Township making illegal expenditures. The Township also did not have a policy addressing the personal use of phones.

The Township should consider consolidating their cell phone usage to one vendor to perhaps obtain some economies of scale and also to allow for one monthly invoice that can easily be reviewed prior to payment. Additionally, a detailed inventory should be maintained in the Administrator’s office of all the cell phones, along with each phone number and assignment of each phone to a certain employee. The Township adopted a Phone/Pager/Computer Policy effective February 2, 2004 which addresses personal use of a Township equipment.

FINDING NUMBER 2002-006

Reportable Condition

The Township has delegated payroll processing, which is a significant accounting function, to a third-party administrator (Paychex). The Township has not established procedures to determine whether the payroll expenditures processed by Paychex have been completely and accurately processed. The lack of proper monitoring could result in management making financial decisions based on erroneous data and/or inaccurate payments of Township monies.

The Township Clerk and Trustees should monitor reports Paychex provides to them. This monitoring might include:

- Scanning the payroll listing for unusual payments and assure all payees are current employees of the Township.
- Scan the deduction listings to assure required withholdings are being made.
- Recompute some net payments. That is, multiply the approved rate times the hours worked, minus deductions to agree to net pay.
- Trace some hours to corresponding timesheets.
- Increase the extent of the review when the Township makes changes to standing data. Standing data is information used to process more than one pay period's transactions. Examples include changes to pay rates, adding or deleting employees or changing deduction amounts.

Monitoring does not require testing every payroll transaction. The Clerk and Trustees can limit the extent of these procedures to a level sufficient to detect significant errors. The Clerk and Trustees should use tick marks and initial the reports to document the monitoring they have done.

**LIBERTY TOWNSHIP
BUTLER COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FISCAL YEAR END DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
Management Letter Citation #1	Ohio Revised Code 5705.41(D), failure to properly certify funds	No	Not corrected – reissued as Finding No. 2002-002



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LIBERTY TOWNSHIP

BUTLER 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
MAY 13, 2004**