



Dave Yost • Auditor of State



LIBERTY TOWNSHIP  
KNOX COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Auditor's Report .....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2015 .....	3
Notes to the Financial Statements .....	5
Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters .....	13
Schedule of Findings .....	15
Summary Schedule of Prior Audit Findings .....	26

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# Dave Yost • Auditor of State

## AUDITOR'S REPORT

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, files and reports of Liberty Township, Knox County, Ohio (the Township), as of and for the year ended December 31, 2015 following Ohio Administrative Code Section 117-4-02.

As discussed in Note 10 to the financial statements, the Township has suffered recurring losses from operations and has negative fund balances in the General, Gasoline Tax, and Road and Bridge Funds. Note 10 describes Management's plan regarding these matters. The financial statements do not include any adjustments that might result from the outcome of the uncertainty.

There are reportable findings and conditions as a result of performing these procedures. Our reportable findings and conditions follow the financial presentation. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, and we express no opinion on them.

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 Section 117.26 of the Ohio Revised Code, 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 "Dave Yost".

**Dave Yost**  
Auditor of State  
Columbus, Ohio

February 24, 2017

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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, 2015**

	General	Special Revenue	Debt Service	Total Governmental Funds
<u>Receipts:</u>				
Property Taxes	\$ 33,004	\$ 74,940	\$ -	\$ 107,944
Fees, Licenses, and Permits	9,829	4,514	-	14,343
Intergovernmental	28,147	117,899	-	146,046
Interest	1	2	-	3
Other	157	3,673	-	3,830
	71,138	201,028	-	272,166
<u>Disbursements:</u>				
Current:				
General Government	66,294	-	-	66,294
Public Works	734	180,203	-	180,937
Health	-	17,540	-	17,540
Capital Outlay	-	24,900	-	24,900
Debt Service:				
Principal Retirement	-	5,968	-	5,968
	67,028	228,611	-	295,639
Excess of Receipts Over (Under) Disbursements	4,110	(27,583)	-	(23,473)
<u>Other Financing Sources</u>				
Proceeds of Loans	-	24,900	-	24,900
Changes in Fund Balances	4,110	(2,683)	-	1,427
Fund Balances at Beginning of Year	(6,089)	27,734	458	22,103
<u>Fund Balances at End of Year</u>				
Restricted	-	67,368	458	67,826
Unassigned (Deficit)	(1,979)	(42,317)	-	(44,296)
Fund Balances at End of Year	\$ (1,979)	\$ 25,051	\$ 458	\$ 23,530

See Accompanying Notes to Basic Financial Statements

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**LIBERTY TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015**

**Note 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, 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 8 to the financial statements provides 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.

**B. Accounting Basis**

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 Township recognizes receipts when received in cash rather than when earned and recognize 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.

**C. Deposits and Investments**

The Township maintains an interest earning checking account.

**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:

**General Fund** - The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**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 for 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.

LIBERTY TOWNSHIP  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)

**Note 1 - Summary of Significant Accounting Policies** (continued)

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

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.

E. 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, and object level of control and appropriations may not exceed estimated resources. The Board of Trustees must annually approve appropriation measures and subsequent amendments. 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 2015 budgetary activity appears in Note 3.

F. 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.

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**Note 1 - Summary of Significant Accounting Policies** (continued)

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 the 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.

**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.

**H. 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.

**Note 2 - Equity in Pooled Deposits**

The Township maintains a deposit pool that all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31, 2015 was \$23,530.

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

**Note 3 - Budgetary Activity**

Budgetary activity for the year ending December 31, 2015, follows:

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**Note 3 - Budgetary Activity** (Continued)

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$55,297	\$71,138	\$15,841
Special Revenue	188,700	225,928	37,228
Total	\$243,997	\$297,066	\$53,069

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$66,244	\$67,028	(\$784)
Special Revenue	246,170	228,611	17,559
Debt Service	12,042	0	12,042
Total	\$324,456	\$295,639	\$28,817

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General and Road and Bridge special revenue fund by \$784 and \$24,317, respectively, for the year ended December 31, 2015.

Contrary to Ohio law, appropriations exceeded estimated receipts plus carryover balances in the General Fund, the Gasoline Tax and Road and Bridge special revenue funds, and the General Bond Note Retirement debt service fund by \$29,636, \$21,836, \$36,668, and \$11,584, respectively, for the year ended December 31, 2015.

Contrary to Ohio law, at December 31, 2015, the General, Gasoline Tax and Road and Bridge special revenue funds had a deficit cash balance of \$1,979, \$14,210 and \$28,107, respectively.

**Note 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.

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

**Note 5 - Debt**

Debt outstanding at December 31, 2015, was as follows:

	Principal	Interest Rate
Equipment Bonds	\$24,900	3.45%
OPWC Loan	29,839	0%
Total	\$54,739	

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**Note 5 – Debt** (continued)

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.

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

Year ending December 31:	Equipment Bonds		OPWC Loan
	Principal	Interest	Principal
2016	\$4,650	\$857	\$5,968
2017	4,808	699	5,968
2018	4,974	533	5,968
2019	5,145	362	5,968
2020	5,323	184	5,967
Total	\$24,900	\$2,635	\$29,839

**Note 6 - Retirement Systems**

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

The Ohio Revised Code also prescribes contribution rates. For 2015, OPERS members contributed 10 percent of their gross salaries and the Township contributed an amount equaling 14 percent of participants’ gross salaries. The Township has not paid all contributions required through December 31, 2015.

**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 Workers’ 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 Rise 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 judgements, 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, 2015, OTARMA retained \$350,000 for casualty claims and \$250,000 for property claims.

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**Note 7 - Risk Management** (continued)

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, 2015:

Assets	\$37,313,311
Liabilities	8,418,518
Net Position	<u>\$28,894,793</u>

At December 31, 2015, the liabilities above include approximately \$7.8 million of estimated incurred claims payable. The assets above also include approximately \$7.7 million of unpaid claims to be billed to approximately 989 member governments in the future as of December 31, 2015. The amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2015, the Township's share of these unpaid claims collectible in future years is approximately \$2,000.

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. The Township contributed \$3,811 to OTARMA during 2015.

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 - Jointly Governed Organization**

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 9 – Subsequent Event**

As a result of the November 2016 general election, the voters of Liberty Township passed a 4.5 mill levy and the Township has contracted with the City of Mount Vernon for fire protection and emergency medical services effective January 1, 2017 for an amount equivalent to 5.5 mills. Due to the passage of this levy and subsequent contract with the City of Mount Vernon, the Township is no longer a member of the Central Ohio Joint Fire District. The Township received its portion (27.35%) of the assets from the Central Ohio Joint Fire District which amounted to \$428,775.74 on February 16, 2017. These funds will be placed in a Special Levy Fund to pay the City of Mount Vernon the 1.0 mill difference.

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2015  
(Continued)**

**Note 10 – Fiscal Distress/Management Plan**

At December 31, 2015, the Township had negative fund balances of \$1,979 in the General Fund, \$14,210 in the Gasoline Tax Fund, and \$28,107 in the Road and Bridge Fund. Upon being declared unauditible on September 30, 2015, the Township monitored expenditures closer in 2016, limiting large projects where possible and kept overall expenditures within revenues. As of January 31, 2017 and after audit adjustments for the 2013, 2014 and 2015 audits were posted to the Township's ledgers, the Gasoline Tax Fund had a negative fund balance of \$3,242 and the Road and Bridge Fund had a negative fund balance of \$27,853 and the Township had an overall total fund balance of \$59,825. In addition the Township is aware that it owes unpaid federal income tax and related penalties of approximately \$36,000 related to 2013 through 2015.

The Township's plan for 2017 and subsequent is to continue to monitor expenditures, limit the number of large projects. In addition the Township has been in contact with the Internal Revenue Service and plans to work with them to resolve the outstanding amount of taxes and penalties owed by the Township.

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# Dave Yost • Auditor of State

## AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

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, files and reports of Liberty Township, Knox County, Ohio, (the Township) as of and for the year ended December 31, 2015 following Ohio Administrative Code Section 117-4-02. We noted the Township has suffered recurring losses from operations and has negative fund balances in the General, Gasoline Tax and Road and Bridge Funds. Our engagement was not designed to result in expressing an opinion on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinion on these matters.

### ***Internal Control Over Financial Reporting***

During our procedures related to the internal control over financial reporting we noted matters that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. In addition, these matters could result in the occurrence of misstatements that are caused by error or fraud that would not be detected in a timely manner by employees when performing the assigned functions. These matters are described in the Schedule of Findings as items 2015-005, 2015-010, 2015-013, and 2015-016 through 2015-018.

### ***Compliance and Other Matters***

We 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 or other matters that are reported in the Schedule of Findings as items 2015-001 through 2015-015.

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

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

February 24, 2017

LIBERTY TOWNSHIP  
KNOX COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2015

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING 2015-001

Minutes – Noncompliance

**Ohio Rev. Code § 121.22(G)** states the members of a public body may hold an executive session only after a majority of a quorum of the public body determines, by a roll call vote, to hold such a session and only at a regular or special meeting for the sole purpose of the consideration of any of the following matters:

- (1) The appointment, employment, dismissal, discipline, promotion, demotion, or compensation of a public employee or officials, or the investigation of charges or complaints against a public employee, official, licensee, or regulated individual, unless the public employee, official licensee, or regulated individual requests a public hearing;
- (2) The purchase of property for public purposes, or for the sale of property at competitive bidding, if premature disclosure of information would give an unfair competitive or bargaining advantage to a person whose personal private interest is adverse to the general public interest.
- (3) Conducting conferences with an attorney for the public body, concerning disputes involving the public body that are the subject of pending or imminent court action.
- (4) Preparing for, conducting, or reviewing negotiations or bargaining sessions with public employees concerning their compensation or other terms and conditions of their employment.
- (5) Matters required to be kept confidential by federal laws or rules or state statutes.
- (6) Specialized details of security arrangements and emergency response protocols where disclosure of the matters discussed could reasonably be expected to jeopardize the security of the public body or public office....
- (7) To consider confidential information related to the marketing plans, specific business strategy, production techniques, trade secrets, or personal financial statements of an applicant for economic development assistance, or to negotiations with other political subdivisions respecting requests for economic development assistance, provided that both of the following conditions apply:
  - (a) The information is directly related to a request for economic development assistance that is to be provided or administered under any provision of Chapter 715., 725., 1724., or 1728. or sections 701.07, 3735.67 to 3735.70, 5709.40 to 5709.43, 5709.61 to 5709.69, 5709.73 to 5709.75, or 5709.77 to 5709.81 of the Revised Code, or that involves public infrastructure improvements or the extension of utility services that are directly related to an economic development project.
  - (b) A unanimous quorum of the public body determines, by a roll call vote, that the executive session is necessary to protect the interests of the applicant or the possible investment or expenditure of public funds to be made in connection with the economic development project.

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)</b>
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**FINDING 2015-001 (Continued)**

**Minutes – Noncompliance (Continued)**

The Board of Trustees went into executive session October 7, 2015. Reasons for entering into executive session were not specified in the minutes of open session. Without documentation for moving into executive session, the Township fails to document the intent of such sessions and may move into such sessions for ineligible purposes.

**FINDING 2015-002**

**Timely Deposits – Noncompliance**

**Ohio Rev. Code § 9.38** states that a person who is a public official shall deposit all public moneys received by that person with the Township Fiscal Officer or properly designated depository on the business day next following the day of receipt, if the total amount of such moneys received exceeds one thousand dollars. If the total amount of the public moneys so received does not exceed one thousand dollars, the person shall deposit the moneys on the business day next following the day of receipt, unless the public office of which that person is a public official adopts a policy permitting a different time period, not to exceed three business days next following the day of receipt, for making such deposits, and the person is able to safeguard the moneys until such time as the moneys are deposited. The policy shall include provisions and procedures to safeguard the public moneys until they are deposited.

During testing of cash receipts, we noted that zoning permits, sale of cemetery lots and cemetery fees were often deposited more than one to three business days after receipt. Seven receipts reviewed were deposited one week to one month after the receipt date.

Timely deposits reduce the risk of receipts being lost, misappropriated or improperly posted and going undetected by management.

We recommend employees pay-in receipts to the Fiscal Officer timely and the Fiscal Officer deposit all receipts with the financial institution on a timely basis. Receipt numbers representing a specific deposit should also be documented with the bank deposit. The Township Trustees should develop deposit policies that help ensure all individuals associated with receipt collection follow and the policies be monitored on a periodic basis.

**FINDING 2015-003**

**Filing of Annual Financial Reports – Noncompliance**

**Ohio Rev. Code § 117.38** requires cash-basis entities file annual reports with the Auditor of State within 60 days of the fiscal year end. These forms must be filed on forms prescribed by the Auditor of State. Any public office which does not file the report by the required date shall pay a penalty of \$25 for each day the report remains un-filed, not to exceed \$750. Also, the public office must publish notice in a local newspaper stating the financial report is available for public inspection at the office of the chief fiscal officer. The Auditor of State may provide waivers of these dates and penalties in certain circumstances.

The Township did not publish the notice of availability of the required reports for fiscal year 2015 and the annual report was not filed until April 1, 2016.

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)**

**FINDING 2015-003 (Continued)**

**Filing of Annual Financial Reports – Noncompliance (Continued)**

As an important part of restoring public accountability, we recommend the Township file its annual report with the Auditor of State within 60 days of fiscal year end. The Township should also publish notice in a local newspaper stating the financial report is available for public inspection at the Township's office.

**FINDING 2015-004**

**Continuing Education Requirements– Noncompliance**

**Ohio Rev. Code § 135.22(B)** states 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.

The Fiscal Officer did not attend the annual continuing education programs provided by the Auditor of State or complete the annual exemption to the Auditor of State's office in fiscal year 2015.

We recommend the Fiscal officer attend the annual training or complete an annual exemption and submit to the Auditor of State's office.

**FINDING 2015-005**

**Deficient Accounting Records– Noncompliance/Internal Control**

**Ohio Admin. Code § 117-2-02** states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code. It also states that the management of each local public office is responsible for the assertions underlying the information in the public office's financial statements.

Although the Township utilized UAN, inadequate information was entered into the system. As a result, the Township was declared unauditible September 30, 2015 and Local Government Services (LGS) was contracted to reconstruct 2015 financial records.

We recommend the Township maintain an accounting system and accounting records sufficient to enable it to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets and liabilities, document compliance with finance-related legal and contractual requirements, and prepare financial statements required by rule 117-2-03 of the Administrative Code.

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)</b>
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**FINDING 2015-006**

**Appropriations Exceeding Estimated Resources– Noncompliance**

**Ohio Rev. Code § 5705.39** states that total appropriations from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the County Auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Total appropriations exceeded the total estimated resources as follows:

<b>Fund</b>	<b>Estimated Resources</b>	<b>Appropriations</b>	<b>Variance</b>
General	\$36,608	\$66,244	(\$29,636)
Gasoline Tax	\$102,179	\$124,015	(\$21,836)
Road and Bridge	\$31,863	\$68,531	(\$36,668)
Debt Service	\$458	\$12,042	(\$11,584)

This could result in the Township expending more money than it receives and could cause possible negative fund balances. A lack of funds may result in the Township being unable to meet its current obligations. See Finding 2015-013 where the General, Gasoline Tax and Road and Bridge Funds balances at December 31, 2015 were negative.

We recommend the Township ensure that estimated resources are sufficient to cover appropriations at the time of certification or amendment.

**FINDING 2015-007**

**Expenditures Exceeding Appropriations– Noncompliance**

**Ohio Rev. Code § 5705.41(B)** prohibits a subdivision or taxing unit from expending money unless it has been appropriated. The legal level of budgetary control for the Township is the level at which the Board of Trustees adopts the original appropriation measure.

Budgetary expenditures exceeded appropriations at the fund level as follows:

<b>Fund</b>	<b>Expenditures</b>	<b>Appropriations</b>	<b>Variance</b>
General	\$67,028	\$66,244	(\$784)
Road and Bridge	\$92,848	\$68,531	(\$24,317)

Failure to have adequate appropriation authority in place at the time of expenditure may result in expenditures exceeding available resources, and result in deficit spending.

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request the Board of Trustees to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)</b>
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**FINDING 2015-008**

**Payment of Taxes Deducted and Withheld– Noncompliance**

**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.

During payroll testing, we noted that withholdings were made for federal income taxes and Medicare, but not always remitted to the Internal Revenue Service (IRS). This resulted in the Township owing the IRS \$11,273. In addition, the Township incurred failure to file, failure to pay and tax deposit penalties and interest in the amount of \$4,306.

We recommend the required tax returns be prepared and submitted as prescribed in accordance with the taxing authorities due dates and the correct amounts remitted with the returns. During 2016, the Township filed the required returns and contacted the IRS to resolve the amount owed.

This matter will be referred to the IRS.

**FINDING 2015-009**

**OPERS Withholding, Payment and Reporting – Noncompliance**

**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 per cent 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.

We noted the Township did not always accurately withhold, pay or report retirement contributions to the Ohio Public Employees Retirement System (OPERS). It was also noted that there were no records maintained by the Township regarding payments owed to or made to OPERS and payments were on the bank statements, but not recorded in the ledgers. This resulted in inaccurate reporting and could potentially prevent employees from receiving correct pension amounts and incurring late fees.

We recommend the correct amounts be withheld, reported and paid to OPERS by the required due dates. In addition the Township should contact OPERS to resolve any amounts that may still be owed by the Township.

This matter will be referred to OPERS.

LIBERTY TOWNSHIP  
KNOX COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2015-010

**Maintaining Supporting Documentation for Disbursements – Noncompliance/Internal Control**

Maintaining organized documentation and support for financial transactions is essential in assuring the Township's financial statements are accurately presented and that all expenditures are made for a proper public purpose. Additionally, **Ohio Rev. Code § 149.351** requires that all records that are the property of the public office 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 commission provided for under **Ohio Rev. Code §§ 149.38 through 149.42**.

We noted the Township did not maintain the underlying documentation and support of certain financial transactions during the audit period for two of the 24 reimbursements tested in 2015 for salt and postage.

Failure to maintain organized underlying documentation and support of financial transactions can increase the risk of fraud, inaccurate financial statements, and expenditures that are not for a proper public purpose.

We recommended the Township maintain all invoices, purchase orders, and check stubs attached to each other for all financial transactions occurring within the Township and that records be maintained in an orderly manner to support all transactions.

FINDING 2015-011

**Public Records Training– Noncompliance**

**Ohio Rev. Code § 109.43(B)** requires all state and local elected officials, or their designees, must attend at least three hours of training on Ohio's Public Records Laws during each term of office.

None of the elected officials attended public records training during 2015.

By elected officials not attending public records training, officials and staff might not be aware of the public records requirements in the State of Ohio, and officials and staff might not know how to properly handle public records requests.

We recommend the Township's elected officials, or their designees, attend at least three hours of public records training during each term in office.

FINDING 2015-012

**Fraud Reporting System– Noncompliance**

**Ohio Rev. Code § 117.103(B)(1)** states a public office shall provide information about the Ohio fraud-reporting system and the means of reporting fraud to each new employee upon employment with the public office. Each new employee shall confirm receipt of this information within thirty days after beginning employment. The auditor of state shall provide a model form on the auditor of state's web site to be printed and used by new public employees to sign and verify their receipt of information as required by this section. The auditor of state shall confirm, when conducting an audit under section 117.11 of the



**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)</b>
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**FINDING 2015-012 (Continued)**

**Fraud Reporting System– Noncompliance (Continued)**

Revised Code, that new employees have been provided information as required by this division. Furthermore, Ohio Rev. Code § 117.03(B)(2) states that on the effective date of this section (May 4, 2012) each public office shall make all its employees aware of the fraud-reporting system.

The Township did not have record of informing employees of the fraud reporting system.

We recommend the Township have all current and new employees sign a form that confirms receipt of information about the Ohio fraud-reporting system and maintain in the employee file.

**FINDING 2015-013**

**Negative Fund Balances/Use of Revenues – Noncompliance/Internal Control**

**Ohio Rev. Code § 5705.10(I)** states that money paid into any fund shall be used only for the purposes for which such fund was 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, 2015, the Township had negative fund balances in the General Fund in the amount of \$1,979, the Gasoline Tax fund in the amount of \$14,210 and the Road and Bridge fund in the amount of \$28,107.

**Ohio Rev. Code § 5705.10(D)** provides 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, shall be paid into a special fund for such purpose.

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. A monitoring system should be in place to prevent or detect material misstatements for the accurate presentation of the Township's financial statements. Additionally, **Ohio Rev. Code § 5705.10(H)** states that money paid into any fund shall be used only for the purpose for which such fund is established.

The following posting errors were noted:

<b>Fund</b>	<b>Posting Error</b>	<b>2015</b>
General	Local Government Fund Distribution posted to the MVL fund and should have been General	\$285
Motor Vehicle License Tax Fund	Local Government Fund Distribution posted to the MVL fund and should have been General	(\$285)

We recommend the Township's Fiscal Officer take steps to ensure the accurate posting of all transactions to the ledgers in accordance with the Township's Uniform Accounting Network (UAN) coding system and the Ohio Revised Code.

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.

The Township Fiscal Officer made the adjustments to the Township's accounting records and the adjustments are reflected in the accompanying financial statements.

LIBERTY TOWNSHIP  
KNOX COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2015-014

**1099 - Misc – Noncompliance**

**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.

During 2015, we noted the Township paid one vendor \$6,270 for mowing, another \$5,694 for ditch work and grave excavation, and another \$3,519 for building and roof repairs. From the documentation provided we were unable to determine whether 1099-MISC forms were filed.

In addition, **26 CFR § 31.3121(d)-1** states, in part, generally an employer must withhold federal income tax, withhold and pay social security and Medicare taxes, and pay unemployment taxes on wages paid to an employee. However, to determine whether an individual is an employee or an independent contractor, under common law, the relationship of the worker and the business must be examined. Facts that provide the evidence of the degree of control and independence fall into three categories: behavior control; financial control; and the type of relationship of the parties. Behavior control facts are demonstrated by the instructions and training that the business gives the worker. Financial control facts are demonstrated whether the business has a right to control the aspects of the worker's job. The type of relationship the parties intend to create can be demonstrated in a contract, but should also consider other factors.

We noted that the Township supplied the equipment and gas for mowing services, but paid the vendor as an independent contractor.

We 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.

FINDING 2015-015

**Permanent Appropriations - Noncompliance**

**Ohio Rev. Code § 5705.38(A)** requires on or about the first day of each fiscal year, an appropriation measure be passed. The Township may pass a temporary appropriation measure to meet their ordinary expenses until April 1st, at which time a permanent appropriation measure must be passed.

The Township did not adopt a permanent appropriation measure for fiscal year 2015 until October 13, 2015.

We recommend the Township Trustees adopt a permanent appropriation measure by April 1<sup>st</sup> each year. The Township should review the Auditor of State's Ohio Compliance Supplement and develop a budgetary schedule and timeline to assure that all annual budgetary filings and compliance requirements are met.

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)</b>
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**FINDING 2015-016**

**Fiscal Responsibility/The Board of Trustees Monitoring of Financial Reports – Internal Control**

Financial records were not adequately maintained by the Fiscal Officer. Additionally, proper Board monitoring was not performed to determine that the required records were even being maintained. These records would include monthly bank reconciliations, budget reports, receipt and expenditure ledgers and payroll reports.

It is the Board's responsibility to monitor monthly reports and check to determine that related documents agree. It is important the Board monitors financial activity closely, and at each regular monthly meeting, at a minimum, the Board should require the bank reconciliation and the detailed budget and actual receipt and disbursement reports be provided for review. Monthly bank reconciliations should be reviewed to ensure bank balances agree with the monthly fund balances. Any reconciling items should be reviewed to verify there are no unexplained items, and/or the explanations are factual. The detailed budget versus actual reports should be reviewed to determine that receipts are in line with estimates and that expenditures are within appropriations and if necessary, appropriate budget modifications be updated. It was discovered that comprehensive bank reconciliations were not being performed by the Fiscal Officer.

In order to assure adequate segregation of duties and monitoring of accounting activity, it is essential that an accounting system that is primarily operated by a single individual (Fiscal Officer), be monitored by the Township Board of Trustees.

Trustees should carefully review the following information and make appropriate inquiries to assure the continued integrity of accounting information in order to make informed decisions to manage the Township, such as the following:

- Are current receipts sufficient to cover expenditures?
- Are expenditures in line with prior year costs?
- If unusual fluctuations in receipts or expenditures occur, is the reason understood, and has it been appropriately budgeted?
- Are anticipated receipts being timely received?
- When cash is available, is the Township maximizing its return on invested cash balances?
- Are the Township records, reports and cash reconciliations maintained and presented in a timely manner that provides accurate and meaningful information to Trustees?
- Are errors and irregularities examined timely and are those responsible for providing accounting information being held accountable for providing accurate and complete financial information.

To improve the monitoring controls over this activity, the Trustees should document receipt and review of all of these reports in the minutes. Also, a designated Trustee should sign or initial and date these reports as evidence of review.

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)</b>
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**FINDING 2015-017**

**Township Policies – Internal Control**

A policy manual is essential to assure that key areas of operations are fully documented (in written form) and understood by employees, management and elected officials.

The Township is operating without key policies in place. We noted the Township does not have a credit card or cell phone policy in place.

Township Trustees should adopt a credit card policy which addresses: who is responsible for custody of the credit cards; who is permitted to use the credit cards; types of purchases which may be made; and receipt documentation requirements. Township Trustees should receive and review all credit card transactions monthly against the policy.

If the Township is going to pay for an employee's cell phone, the Township Trustees should adopt a cell phone policy. At a minimum, the policy should address the authorized users, guidelines for allowable use, and other guidelines deemed appropriate by the Township Trustees.

**FINDING 2015-018**

**Payroll Expenditures – Internal Control**

In order to effectively account and track payroll related transactions, a payroll ledger should be maintained that documents all payroll transactions and is reconciled to the cashbook on a biweekly basis. The Township should also maintain personnel files with job descriptions and contracts or salary notices that support the ledger.

Numerous weaknesses over payroll transactions were noted during the audit period. The weaknesses included, but were not limited to; lack of supporting time sheets, lack of Trustee approval of time sheets, miscalculated withholdings, no withholdings, no personnel files, lack of hiring authorization and approved pay rates, and lack of detailed payroll ledgers.

These weaknesses have led to the inability to adequately monitor payroll transactions.

The following weaknesses were noted during 2015:

- One instance was noted where taxes and/or retirement was not withheld.
- Time sheets were signed by the employee, but not the Trustees showing approval.
- Employee wage increases were documented in the minutes, but not their base/original salaries. Therefore, we were unable to determine the proper rates of pay.
- Due to no employee contracts being maintained, it was difficult to verify the correct amounts were being paid per payroll records.

LIBERTY TOWNSHIP  
KNOX COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2015  
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS (Continued)

FINDING 2015-018 (Continued)

**Payroll Expenditures – Internal Control (Continued)**

Not properly maintaining documentation of employee's salary could result in errors in payroll, withholdings and retirement contributions.

The Township should maintain personnel files with hiring authorization, position and authorized salary rate, fund which salary will be charged, deduction authorizations, retirement participation, federal withholding W-4, and state and federal tax withholding authorization.

All base salaries and raises should be approved and documented in the minutes by the Trustees.

Time sheets should be signed by the employee and approved by the Trustees prior to issuance of paychecks.

**Official's Response:**

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**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2015**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2013-001 2014-001	Minutes ORC 121.22(C)	Partially Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-001
2013-002 2014-002	Timely Deposits ORC 9.38	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-002
2013-003 2014-003	Filing of Annual Financial Reports ORC 117.38	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-003
2013-004 2014-004	Continuing Education Requirements ORC 135.22	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-004
2013-005 2014-005	Deficient Accounting Records Ohio Admin Code 117-2-02	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-005
2013-006 2104-006	Appropriations Exceeding Estimated Resources ORC 5705.39	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-006
2013-007 2014-007	Expenditures Exceeding Appropriations ORC 5705.41(B)	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-007

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2015  
(Continued)**

2013-008 2014-008	Unallowable Transfers and Advances ORC 5705.14/5705.16	Corrected	N/A
2013-009 2014-009	Payment of Taxes Deducted and Withheld 26 USC 3402 and 3403	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-008
2013-010 2014-010	OPERS Withholding, Payment and Reporting ORC 145.47(B)	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-009
2013-011 2014-011	Maintaining Supporting Documentation for Disbursements ORC 149.351, 149.38 through 149.42	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-010
2013-012 2014-012	Public Records Training ORC 109.43(B)	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-011
2013-013 2014-013	Fraud Reporting System ORC 117.103(B)(1)	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-012
2013-014 2014-014	Negative Fund Balances/Use of Revenues ORC 5705.10(I) and ORC 5705.10(D)	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-013

**LIBERTY TOWNSHIP  
KNOX COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2015  
(Continued)**

2013-015 2014-015	1099-MISC- 26 CFR § 1.6041-1 and 26 CFR § 31.3121(d)-1	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-014
2013-017 2014-016	Fiscal Responsibility/Monitoring of Financial Reports	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-016
2013-018 2014-017	Township Policies	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-017
2013-019 2014-018	Payroll Expenditures	Not Corrected	Practices and errors from 2013 continued through 2014 and 2015. The Township appointed a new fiscal officer in December of 2015. Reissued as Finding 2015-018





# 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  
MARCH 21, 2017**