



**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005



Mary Taylor, CPA
Auditor of State

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Liberty Center
Henry County
110 East Street
P.O. Box 92
Liberty Center, Ohio 43532

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Liberty Center, Henry County, Ohio (the Village), as of and for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes follow the modified cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Liberty Center, Henry County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparison for the General Fund and Street Construction, Maintenance and Repair Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

For the year ended December 31, 2005, the Village revised its financial presentation comparable to the requirements of Governmental Accounting Standard No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.



Mary Taylor, CPA
Auditor of State

August 10, 2007

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
UNAUDITED**

This discussion and analysis of the Village of Liberty Center's (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2005, within the limitations of the Village's modified cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2005 are as follows:

- Net assets of governmental activities increased \$33,966, a significant change from the prior year. The fund most affected by the increase in cash was the general fund. This fund increased by \$20,645.
- The Village's general receipts are primarily property and income taxes. These receipts represent respectively 56 % of the total cash received for governmental activities during the year. Property taxes decreased approximately 1% and income tax receipts for 2005 increased approximately 5%.
- The Water Operating Fund expenditures were \$1,522 over revenue, and the Sewer Operating Fund expenditures were \$8,906 over revenue. This is deficit spending in the Water Operating and Sewer Operating Funds but management feels this is acceptable based upon the healthy fund balances. The Water Operating Fund had one time expenditures of \$38,453. Revenue will be generated back by the sale of the bulk water system and water tap fees of \$1,824. The Sewer Operating Fund also had a one time expenditure of \$29,859. Revenue will be generated back by the sewer tap fee of \$2,706.
- The Village of Liberty Center had put on the ballot an increase of .25% to the income tax. This increase would have funded the park system which would have increased revenue in the other general operations. The rate of taxation would have changed from 1% to 1.25%. The increase failed at the November general election.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's modified cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

**VILLAGE OF LIBERTY CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a modified cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's modified cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Village as a Whole

This annual report includes all activities for which the Village is fiscally responsible. These activities, defined as the Village's reporting entity, are operated within separate legal entities that make up the primary government. The primary government consists of the Village.

The statement of net assets and the statement of activities reflect how the Village did financially during 2005, within the limitations of modified cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the modified cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the Village into two types of activities:

Governmental activities. Most of the Village's basic services are reported here, including police, fire, streets and parks. State, income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

**VILLAGE OF LIBERTY CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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(Continued)**

Business-type activity. The Village has two business-type activities, water and sewer operations. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are split into two categories: governmental and proprietary.

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General Fund, Street Construction, Maintenance, and Repair Fund, and the Capital Improvement Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the activity is reported as an enterprise fund. The Village's significant business type funds are the Water Operating Fund, the Sewer Operating Fund, and the Water Capital Improvement Fund..

**VILLAGE OF LIBERTY CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2005 compared to 2004 on a modified cash basis:

(Table 1)
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets						
Cash and Cash Equivalents	<u>\$280,975</u>	<u>\$247,009</u>	<u>\$563,518</u>	<u>\$563,423</u>	<u>\$844,493</u>	<u>\$810,432</u>
Net Assets						
Restricted for:						
Debt Service		17,058	45,640	31,050	45,640	48,108
Capital Outlay	88,565	86,416			88,565	86,416
Other Purposes	28,230				28,230	
Unrestricted	<u>164,180</u>	<u>143,535</u>	<u>517,878</u>	<u>532,373</u>	<u>682,058</u>	<u>675,908</u>
Total Net Assets	<u>\$280,975</u>	<u>\$247,009</u>	<u>\$563,518</u>	<u>\$563,423</u>	<u>\$844,493</u>	<u>\$810,432</u>

As mentioned previously, net assets of governmental activities increased \$33,966 during 2005. The primary reason contributing to the increase in cash balances are as follows:

- Unanticipated growth of 5 % in local tax receipts. There were no major projects in all of the major governmental funds this year.

Table 2 reflects the changes in net assets in 2005. Since the Village did not prepare financial statements in this format for 2004, a comparative analysis of government-wide data has not been presented. In future years, when prior year information is available, a comparative analysis will be presented.

**VILLAGE OF LIBERTY CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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(Continued)**

(Table 2)
Changes in Net Assets

	Governmental Activities 2005	Business Type Activities 2005	Total 2005
Receipts:			
Program Receipts:			
Charges for Services and Sales	\$8,390	\$473,522	\$481,912
Operating Grants and Contributions	59,740		59,740
Capital Grants and Contributions		2,990	2,990
Total Program Receipts	<u>68,130</u>	<u>476,512</u>	<u>544,642</u>
General Receipts:			
Property and Other Local Taxes	27,921		27,921
Income Taxes	162,171		162,171
Cable Franchise Fees	4,007		4,007
Sale of Capital Assets	300	300	600
Grants and Entitlements Not Restricted to Specific Programs	42,246		42,246
Interest	15,668	1,601	17,269
Miscellaneous	18,814	9,385	28,199
Total General Receipts	<u>271,127</u>	<u>11,286</u>	<u>282,413</u>
Total Receipts	<u>339,257</u>	<u>487,798</u>	<u>827,055</u>
Disbursements:			
General Government	109,245		109,245
Security of Persons and Property:	52,648		52,648
Public Health Services	8,509		8,509
Leisure Time Activities	14,176		14,176
Economic Development	824		824
Basic Utilities	22,003		22,003
Transportation	61,891		61,891
Capital Outlay	14,653		14,653
Principal Retirement	16,195		16,195
Interest and Fiscal Charges	863		863
Water Operating		277,157	277,157
Sewer Operating		170,815	170,815
Water Capital Improvement		7,990	7,990
Other Enterprise		36,025	36,025
Total Disbursements	<u>301,007</u>	<u>491,987</u>	<u>792,994</u>
Excess (Deficiency) Before Transfers	38,250	(4,189)	34,061
Transfers	(4,284)	4,284	
Increase in Net Assets	<u>33,966</u>	<u>95</u>	<u>34,061</u>
Net Assets, January 1, 2005	<u>247,009</u>	<u>563,423</u>	<u>810,432</u>
Net Assets, December 31, 2005	<u>\$280,975</u>	<u>\$563,518</u>	<u>\$844,493</u>

**VILLAGE OF LIBERTY CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
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(Continued)**

Program receipts represent 66 percent of total receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits, grave opening and closing fees, grave lot purchase, Fall Festival proceeds, and shelter house rentals.

General receipts represent 34 percent of the Village's total receipts, and of this amount, over 48.31% are local taxes. State entitlements make up the balance of the Village's general receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources.

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Government activities. These include the costs of council, and the auditor, treasurer, and income tax departments, as well as internal services such as payroll and purchasing.

Security of Persons and Property are the costs of sheriff protection; Public Health Services is the cemetery department; Leisure Time Activities are the costs of maintaining the parks and playing fields; the economic development department promotes the Village to industry and commerce as well as working with other governments in the area to attract new business; and Transportation is the cost of maintaining the roads.

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The major program disbursements for governmental activities are for general government, transportation and security of persons and property, which account for \$223,784 and 74% of all governmental disbursements, respectively. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between the total cost of services and the net cost is presented in Table 3.

	Total Cost Of Services 2005	Net Cost of Services 2005
	<u>2005</u>	<u>2005</u>
General Government	\$109,245	\$109,245
Security of Persons and Property	52,648	52,648
Public Health Services	8,509	624
Leisure Time Activities	14,176	8,669
Economic Development	824	824
Basic Utilities	22,003	22,003
Transportation	61,891	7,153
Capital Outlay	14,653	14,653
Principal Retirement	16,195	16,195
Interest and Fiscal Charges	863	863
Total Expenses	<u>\$301,007</u>	<u>\$232,877</u>

**VILLAGE OF LIBERTY CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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(Continued)**

The dependence upon property and income tax receipts is apparent as over 63 percent of governmental activities are supported through these general receipts.

Business Type Activities

The water operation of the Village is relatively large and routinely reports receipts and cash disbursements that are relatively equal. The sewer operation of the Village is relatively large and routinely reports cash disbursements higher than receipts. The Village raised its sewer rates in August 2005 by 14.5% to improve this situation. We have also received notification from the ODOT that the Village might have to move a sewer line in preparation for the construction of the new U.S. Route 24. Currently, final figures are being compiled.

The Village's Funds

Total governmental funds had receipts and other financing sources of \$340,257 and disbursements and other financing uses of \$306,291. The greatest change within governmental funds occurred within the General Fund. The fund balance of the General Fund increased \$20,645 as the result of increased income tax and decreased spending.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, the Village did not have to amend its General Fund budget. Actual receipts were within 2% of budgeted receipts.

Final disbursements and other financing uses were budgeted at \$271,680 while actual disbursements and other financing uses were \$237,876. The Village kept spending very close to budgeted amounts.

Capital Assets and Debt Administration

Capital Assets

The Village does not currently keep track of its capital assets and infrastructure in the accompanying financial statements, but records payments for capital assets as disbursements.

Debt

At December 31, 2005, the Village's outstanding debt included \$10,747 in a general obligation loan and \$82,389 in Ohio Public Works Commission Loans and Mortgage Revenue Bonds at \$327,000. For further information regarding the Village's debt, refer to Note 11 to the basic financial statements.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2005
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(Continued)**

Current Issues

The challenge for all governments is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base. Our newly prepared financial forecast predicts a small increase in income taxes. We then reviewed the disbursement history of the Village. We have increased disbursements by approximately \$10,000 to relieve the amending of appropriations throughout 2006. Although the Village is restricted in spending large amounts of monies for permanent improvement projects, Council members feel they provide many needed services to the residents by not raising income taxes and granting them a 100 % tax credit when tax is paid to another Village or City.

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Sally McEwen, Village Fiscal Officer, Village of Liberty Center, 110 East Street, Liberty Center, Ohio 43522-0146.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

*Statement of Net Assets - Modified Cash Basis
December 31, 2005*

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	<u>\$280,975</u>	<u>\$563,518</u>	<u>\$844,493</u>
Net Assets			
Restricted for:			
Capital Projects	\$88,565		\$88,565
Debt Service		\$45,640	45,640
Other Purposes	28,230		28,230
Unrestricted	<u>164,180</u>	<u>517,878</u>	<u>682,058</u>
<i>Total Net Assets</i>	<u>\$280,975</u>	<u>\$563,518</u>	<u>\$844,493</u>

See accompanying notes to the basic financial statements

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

*Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2005*

	Cash Disbursements	Program Cash Receipts		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
General Government	\$109,245			
Security of Persons and Property	52,648			
Public Health Services	8,509	\$7,885		
Leisure Time Activities	14,176	505	\$5,002	
Community Environment	824			
Basic Utility Services	22,003			
Transportation	61,891		54,738	
Capital Outlay	14,653			
Debt Service:				
Principal Retirement	16,195			
Interest and Fiscal Charges	863			
<i>Total Governmental Activities</i>	<u>301,007</u>	<u>8,390</u>	<u>59,740</u>	
Business Type Activity				
Water Operating	277,157	312,848		
Sewer Operating	170,815	154,419		
Water Capital Improvement	7,990			\$2,990
Water Debt Service	31,050			
Utility Deposit Fund	3,975	6,255		
Sewer Capital Improvement	1,000			
<i>Total Business Type Activities</i>	<u>491,987</u>	<u>473,522</u>		<u>2,990</u>
Total	<u><u>\$792,994</u></u>	<u><u>\$481,912</u></u>	<u><u>\$59,740</u></u>	<u><u>\$2,990</u></u>

General Receipts

Property Taxes Levied for:

 General Purposes

 Municipal Income Taxes

 Cable Franchise Fees

 Grants and Entitlements not Restricted to Specific Programs

 Sale of Capital Assets

 Interest

 Miscellaneous

Total General Receipts

Transfers

Total General Receipts and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$109,245)		(\$109,245)
(52,648)		(52,648)
(624)		(624)
(8,669)		(8,669)
(824)		(824)
(22,003)		(22,003)
(7,153)		(7,153)
(14,653)		(14,653)
(16,195)		(16,195)
(863)		(863)
(232,877)		(232,877)
	\$35,691	35,691
	(16,396)	(16,396)
	(5,000)	(5,000)
	(31,050)	(31,050)
	2,280	2,280
	(1,000)	(1,000)
	(15,475)	(15,475)
(232,877)	(15,475)	(248,352)
27,921		27,921
162,171		162,171
4,007		4,007
42,246		42,246
300	300	600
15,668	1,601	17,269
18,814	9,385	28,199
271,127	11,286	282,413
(4,284)	4,284	
266,843	15,570	282,413
33,966	95	34,061
247,009	563,423	810,432
\$280,975	\$563,518	\$844,493

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

*Statement of Modified Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2005*

	<u>General</u>	<u>Street Construction Maintenance and Repair Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets					
Equity in Pooled Cash and Cash Equivalents	<u>\$164,180</u>	<u>\$7,099</u>	<u>\$88,565</u>	<u>\$21,131</u>	<u>\$280,975</u>
Fund Balances					
Reserved:					
Reserved for Encumbrances	\$8,995	\$1,942	\$1,026		\$11,963
Unreserved:					
Unreserved, undesignated reported in:					
Undesignated (Deficit), Reported in:					
General Fund	155,185				155,185
Special Revenue Funds		5,157		21,131	26,288
Capital Project Funds			<u>\$87,539</u>		<u>87,539</u>
<i>Total Fund Balances</i>	<u>\$164,180</u>	<u>\$7,099</u>	<u>\$88,565</u>	<u>\$21,131</u>	<u>\$280,975</u>

See accompanying notes to the financial statements

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

*Statement of Cash Receipts, Disbursements and Changes in Modified Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2005*

	General Fund	Street Construction, Maintenance and Repair Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
Receipts					
Municipal Income Taxes	\$129,737		\$32,434		\$162,171
Property and Other Local Taxes	27,921				27,921
Charges for Services	8,200				8,200
Fines, Licenses and Permits	190				190
Intergovernmental	47,248	\$47,872		\$6,866	101,986
Cable Franchise Fees	4,007				4,007
Interest	14,232	1,311		125	15,668
Miscellaneous	17,691	1,123			18,814
<i>Total Receipts</i>	<u>249,226</u>	<u>50,306</u>	<u>32,434</u>	<u>6,991</u>	<u>338,957</u>
Disbursements					
Current:					
General Government	107,316		1,929		109,245
Security of Persons and Property	52,648				52,648
Public Health Services	8,509				8,509
Leisure Time Activities	14,176				14,176
Community Environment	824				824
Basic Utility Services	22,003				22,003
Transportation	9,381	48,429		4,081	61,891
Capital Outlay	8,740		5,913		14,653
Debt Service:					
Principal Retirement			16,195		16,195
Interest and Fiscal Charges			863		863
<i>Total Disbursements</i>	<u>223,597</u>	<u>48,429</u>	<u>24,900</u>	<u>4,081</u>	<u>301,007</u>
<i>Excess of Receipts Over Disbursements</i>	<u>25,629</u>	<u>1,877</u>	<u>7,534</u>	<u>2,910</u>	<u>37,950</u>
Other Financing Sources (Uses)					
Sale of Capital Assets	300				300
Transfers In		1,000			1,000
Transfers Out	(5,284)				(5,284)
<i>Total Other Financing Sources (Uses)</i>	<u>(4,984)</u>	<u>1,000</u>			<u>(3,984)</u>
<i>Net Change in Fund Balances</i>	20,645	2,877	7,534	2,910	33,966
<i>Fund Balances Beginning of Year</i>	<u>143,535</u>	<u>4,222</u>	<u>81,031</u>	<u>18,221</u>	<u>247,009</u>
<i>Fund Balances End of Year</i>	<u>\$164,180</u>	<u>\$7,099</u>	<u>\$88,565</u>	<u>\$21,131</u>	<u>\$280,975</u>

See accompanying notes to the basic financial statements

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
General Fund
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Receipts				
Municipal Income Taxes	\$130,000	\$130,000	\$129,737	(\$263)
Property and Other Local Taxes	32,500	32,500	27,921	(4,579)
Charges for Services	10,500	10,500	8,200	(2,300)
Fines, Licenses and Permits	500	500	190	(310)
Intergovernmental	53,350	53,350	47,248	(6,102)
Cable Franchise Fees			4,007	4,007
Interest	9,000	9,000	14,232	5,232
Miscellaneous	16,250	16,250	17,691	1,441
<i>Total Receipts</i>	<u>252,100</u>	<u>252,100</u>	<u>249,226</u>	<u>(2,874)</u>
Disbursements				
Current:				
General Government	118,710	127,305	111,321	15,984
Security of Persons and Property	52,100	55,126	52,936	2,190
Public Health Services	12,450	11,459	8,614	2,845
Leisure Time Activities	19,000	17,002	14,352	2,650
Community Environment	1,300	1,311	888	423
Basic Utility Services	19,500	23,705	22,281	1,424
Transportation	12,900	13,358	9,935	3,423
Capital Outlay	20,700	16,414	12,265	4,149
<i>Total Disbursements</i>	<u>256,660</u>	<u>265,680</u>	<u>232,592</u>	<u>33,088</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(4,560)</u>	<u>(13,580)</u>	<u>16,634</u>	<u>30,214</u>
Other Financing Sources (Uses)				
Sale of Capital Assets			300	300
Transfers In	3,000	3,000		(3,000)
Transfers Out	(7,500)	(6,000)	(5,284)	716
<i>Total Other Financing Sources (Uses)</i>	<u>(4,500)</u>	<u>(3,000)</u>	<u>(4,984)</u>	<u>(1,984)</u>
<i>Net Change in Fund Balance</i>	(9,060)	(16,580)	11,650	28,230
<i>Fund Balance Beginning of Year</i>	140,115	140,115	140,115	
Prior Year Encumbrances Appropriated	3,420	3,420	3,420	
<i>Fund Balance End of Year</i>	<u>\$134,475</u>	<u>\$126,955</u>	<u>\$155,185</u>	<u>\$28,230</u>

See accompanying notes to the basic financial statements

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

*Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budget Basis
Street Construction Maintenance and Repair Fund
For the Year Ended December 31, 2005*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Receipts				
Intergovernmental	\$48,000	\$48,000	\$47,872	(\$128)
Interest	1,000	1,000	1,311	311
Miscellaneous			1,123	1,123
<i>Total Receipts</i>	<u>49,000</u>	<u>49,000</u>	<u>50,306</u>	<u>1,306</u>
Disbursements				
Current:				
Transportation	<u>59,000</u>	<u>60,630</u>	<u>50,371</u>	<u>10,259</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(10,000)</u>	<u>(11,630)</u>	<u>(65)</u>	<u>11,565</u>
Other Financing Sources				
Transfers In	<u>10,000</u>	<u>10,000</u>	<u>1,000</u>	<u>(9,000)</u>
<i>Net Change in Fund Balance</i>		(1,630)	935	2,565
<i>Fund Balance Beginning of Year</i>	3,592	3,592	3,592	
Prior Year Encumbrances Appropriated	<u>630</u>	<u>630</u>	<u>630</u>	
<i>Fund Balance End of Year</i>	<u><u>\$4,222</u></u>	<u><u>\$2,592</u></u>	<u><u>\$5,157</u></u>	<u><u>\$2,565</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

*Statement of Fund Net Assets - Modified Cash Basis
Proprietary Funds
December 31, 2005*

	Business-Type Activities				Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Water Capital Improvement Fund	Other Enterprise Funds	
Assets					
Equity in Pooled Cash and Cash Equivalents	\$230,932	\$137,021	\$111,051	\$84,514	\$563,518
<i>Total Assets</i>	<u>\$230,932</u>	<u>\$137,021</u>	<u>\$111,051</u>	<u>\$84,514</u>	<u>\$563,518</u>
Net Assets					
Restricted for:					
Debt Service				\$45,640	\$45,640
Unrestricted	\$230,932	\$137,021	\$111,051	\$38,874	517,878
Total Net Assets	<u>\$230,932</u>	<u>\$137,021</u>	<u>\$111,051</u>	<u>\$84,514</u>	<u>\$563,518</u>

See accompanying notes to the basic financial statements

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Modified Cash Basis
Proprietary Funds
For the Year Ended December 31, 2005*

	Business-Type Activities				Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Water Capital Improvement Fund	Other Enterprise Funds	
Operating Receipts					
Charges for Services	\$312,848	\$154,419		\$6,255	\$473,522
Operating Disbursements					
Personal Services	69,592	45,407			114,999
Fringe Benefits	26,852	24,236			51,088
Contractual Services	11,921	25,208			37,129
Materials and Supplies	35,000	55,962			90,962
Other	110,257	84		3,975	114,316
<i>Total Operating Disbursements</i>	<u>253,622</u>	<u>150,897</u>		<u>3,975</u>	<u>408,494</u>
<i>Operating Income</i>	59,226	3,522		2,280	65,028
Non-Operating Receipts (Disbursements)					
Special Assessments			\$2,990		2,990
Sale of Capital Assets	150	150			300
Interest				1,601	1,601
Capital Outlay	(23,535)	(19,918)	(7,990)	(1,000)	(52,443)
Principal Payments				(14,000)	(14,000)
Interest and Fiscal Charges				(17,050)	(17,050)
Other Financing Sources	2,045	7,340			9,385
<i>Income (Loss) before Transfers</i>	37,886	(8,906)	(5,000)	(28,169)	(4,189)
Transfers In			10,134	33,558	43,692
Transfers Out	(39,408)				(39,408)
<i>Change in Net Assets</i>	(1,522)	(8,906)	5,134	5,389	95
<i>Net Assets Beginning of Year</i>	<u>232,454</u>	<u>145,927</u>	<u>105,917</u>	<u>79,125</u>	<u>563,423</u>
<i>Net Assets End of Year</i>	<u><u>\$230,932</u></u>	<u><u>\$137,021</u></u>	<u><u>\$111,051</u></u>	<u><u>\$84,514</u></u>	<u><u>\$563,518</u></u>

See accompanying notes to the basic financial statements

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

NOTE 1 – REPORTING ENTITY

The Village of Liberty Center, Henry County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a six-member Council elected at large for four year terms. The Mayor is elected to a four-year term, serves as the President of Council and votes only to break a tie.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, water and sewer utilities, maintenance of Village roads and bridges and park operations. The Village contracts with the Henry County Sheriff's department to provide security of persons and property.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent on the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. The Village currently does not have any component units.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.C, these financial statements are presented on a *modified* cash basis of accounting. This *modified* cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the *modified* cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the *modified* cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balances of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or business-type activity is self-financing on a modified cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The proprietary fund statements report all other receipts and disbursements as nonoperating.

B. Fund Accounting

The Village uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Village are divided into two categories, governmental and proprietary.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Village's major governmental funds are the General Fund, Street Construction Maintenance and Repair Fund and Capital Improvement Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The Street Construction, Maintenance and Repair Fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets. The Capital Improvement Fund receives proceeds from the Village's income tax. The fund is used for any permanent improvements that are made to any properties and roads with a life span of over five years.

The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major enterprise funds are the water and sewer funds.

Water Fund - The water fund accounts for the provision of water to the residents and commercial users located within the Village.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

Water Capital Improvement Fund – The Water Capital Improvement fund accounts for 12.5% of the interest received in the general fund and 15% of monthly revenue over expenditures if revenue was generated that month.

The other enterprise fund of the Village accounts for resources restricted to a particular purpose.

C. Basis of Accounting

The Village's financial statements are prepared using the modified cash basis of accounting. Receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued liabilities and the related expenses) are not recorded in these financial statements.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the fund, department, and object level for all funds. Council and Board of Public Affairs review permanent appropriations and normally pass them by February of the following year. If changes have been made to the permanent appropriations, it is approved through Council members. When a purchase is required, personnel are instructed to obtain a purchase order.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

E. Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts, respectively.

During 2005, the Village invested in nonnegotiable certificates of deposit. The nonnegotiable certificates of deposits are reported at cost.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2005 was \$14,232 which includes \$9,962 assigned from other funds.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

F. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Capital Assets

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

H. Accumulated Leave

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

I. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 9 and 10, the employer contributions include portions for pension benefits and for postretirement health care benefits.

J. Long-Term Obligations

The Village's modified cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid.

K. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for capital expenditures

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods.

Fund balance reserves have been established for encumbrances.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

M. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

NOTE 3 – CHANGE IN BASIS OF ACCOUNTING AND RESTATEMENT OF FUND EQUITY

Last year the Village reported fund financial statements by fund type using the regulatory basis of accounting as prescribed by the State Auditor's Office. This year the Village has implemented the *modified* cash basis of accounting described in note 2. The fund financial statements now present each major fund in a separate column with nonmajor funds aggregated and presented in a single column, rather than a column for each fund type.

NOTE 4 – BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the General Fund and Street Construction, Maintenance and Repair Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year end encumbrances that are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (modified cash basis).

The encumbrances outstanding at year end (budgetary basis) amounted to \$8,995 for the General Fund and \$1,942 for the Street Construction, Maintenance and Repair fund.

NOTE 5 – DEPOSITS AND INVESTMENTS

Monies held by the Village are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 5 – DEPOSITS AND INVESTMENTS – (CONTINUED)

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 5 – DEPOSITS AND INVESTMENTS – (CONTINUED)

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$667,044 of the Village's bank balance of \$867,044 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured

NOTE 6 – INCOME TAXES

The Village levies a 1 percent income tax whose proceeds are placed into the General Fund at 80% and Other Capital Project Fund at 20%. The Village levies and collects the tax on all income earned within the Village as well as on incomes of residents earned outside the Village. In the latter case, the Village allows a credit of the lesser of actual taxes paid to another city or 100 percent of the 1 percent tax rate on taxable income. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to Central Collection Agency at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

NOTE 7 – PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2004, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 7 – PROPERTY TAXES – (CONTINUED)

Tangible personal property tax receipts received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The full tax rate for all Village operations for the year ended December 31, 2005, was \$2.4 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Real Property	
Residential	\$ 10,912
Agricultural	11,560
Commercial/Industrial/Mineral	1,205,170
Tangible Personal Property	427,364
Public Utility Real	1,880
Public Utility Personal	470,100
Total Assessed Value	\$13,029,014

NOTE 8 – RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the Village contracted with several companies for various types of insurance coverage as follows:

Company	Type of Coverage	Amount of Coverage
Motorists Mutual	Commercial Property	\$2,678,200
	General Liability	2,000,000
	Commercial Crime	
	Inland Marine	100,000
	Vehicle	1,000,000
Scottsdale Indemnity	Errors and Omissions	
Ohio Casualty/Western Surety	Public Officials	1,000,000
	Fidelity and Deposit	98,700

Settled claims have not exceeded coverage in any of the last three years and there was no significant reduction in coverage from the prior year.

The Village pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The System administers and pays all claims.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 9 – DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2005, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. The Village's contribution rate for pension benefits for 2005 was 9.55 percent, except for those plan members in law enforcement or public safety. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003, were \$28,634, \$27,431, and \$21,395 respectively. The full amount has been contributed for 2005, 2004 and 2003.

NOTE 10 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4 percent of covered payroll was the portion that was used to fund health care.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 10 - POSTEMPLOYMENT BENEFITS – (CONTINUED)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.30 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits were \$29,954. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2004, (the latest information available) were \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.7 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

NOTE 11 – DEBT

The Village's long-term debt activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Reductions	Balance December 31, 2005	Due Within One Year
<u>Governmental Activities</u>					
General Obligation Loan 2001 Issue	5.17%	\$21,914	\$11,167	\$10,747	\$10,747
Ohio Public Works Commission Loan 2001 Issue	0%	68,895	4,053	64,842	4,053
Ohio Public Works Commission Loan 2003 Issue	0%	18,522	975	17,547	975
Total Governmental Activities		<u>\$109,331</u>	<u>\$16,195</u>	<u>\$93,136</u>	<u>\$15,775</u>
<u>Business-type Activities</u>					
Mortgage Revenue Bonds 1985 Issue					
Total Business-type Activities	5.0%	<u>\$341,000</u>	<u>\$14,000</u>	<u>\$327,000</u>	<u>\$15,000</u>

The General Obligation Loan (G.O. Loan) is supported by the full faith and credit of the Village and is payable from unvoted property tax receipts to the extent that other resources are not available to meet annual principal and interest payments.

**VILLAGE OF LIBERTY CENTER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)**

NOTE 11 – DEBT – (CONTINUED)

The Ohio Public Works Commission (OPWC) Loan for Phase I of Maple Street was issued in fiscal year 2001 and relates to the Maple Street improvements, in the amount of \$81,053 at a zero percent interest rate. The loan will be paid in semiannual payments over 20 years.

The Ohio Public Works Commission (OPWC) Loan for Phase II of Maple Street was issued in fiscal year 2003 and relates to the Maple Street improvements, in the amount of \$19,497 at a zero percent interest rate. The loan will be paid in semiannual payments over 20 years.

The Waterworks System First Mortgage Revenue Bonds were issued in 1985 and relate to a waterline project, in the amount of \$525,000 at 5% interest. The bonds will be paid in installments over 37 years.

The following is a summary of the Village's future annual debt service requirements:

Year	G.O. Loan		OPWC Loans		Mortgage Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$10,747	\$279	\$ 5,028	\$	\$ 15,000	\$ 16,350
2007			5,027		16,000	15,600
2008			5,027		17,000	14,800
2009			5,027		18,000	13,950
2010			5,027		18,000	13,050
2011–2116			25,138		106,000	50,750
2017–2022			30,165		137,000	21,200
2023			1,950			
Totals	<u>\$10,747</u>	<u>\$279</u>	<u>\$82,389</u>	<u>\$</u>	<u>\$327,000</u>	<u>\$145,700</u>

The Ohio Revised Code provides that net general obligation debt of the Village, exclusive of certain exempt debt, issued without a vote of the electors shall never exceed 5.5 percent of the tax valuation of the Village. The Revised Code further provides that total voted and unvoted net debt of the Village less the same exempt debt shall never exceed amount equal to 10.5 percent of its tax valuation.

NOTE 12 – INTERFUND TRANSFERS

During 2005 the following transfers were made:

Transfers from the General Fund to:	
Street Construction Maintenance and Repair Fund	\$1,000
Water Capital Improvement Fund	2,142
Water Debt Service Fund	<u>2,142</u>
Total Transfers from the General Fund	<u>\$5,284</u>

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Ordinance #873 dated 02/22/1994 states that 12.5% of the interest income in the general fund goes into the Water Improvement Fund and 12.5% into the Sewer Improvement Fund.

VILLAGE OF LIBERTY CENTER
HENRY COUNTY

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Continued)

NOTE 12 – INTERFUND TRANSFERS – (CONTINUED)

Transfers from the Water Operating Fund to:	
Water Capital Improvement Fund	\$7,992
Water Debt Service Fund	<u>31,416</u>
Total Transfers from the Water Operating Fund	<u>\$39,408</u>

Transfers were made out of the Village's Water Operating Fund to subsidize capital improvements and debt service payments

NOTE 13 – SUBSEQUENT EVENTS

The Village is liable for moving a main sewer line when the construction starts for the new U.S. Route 24. The Village is currently compiling information on this and currently have no finalized costs yet.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Liberty Center
Henry County
110 East Street
P.O. Box 92
Liberty Center, Ohio 43532-0092

To the Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Liberty Center, Henry County, (the Village) as of for the year ended December 31, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon dated August 10, 2007, wherein, we noted the Village prepares its financial statements on the modified cash basis of accounting. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures to express our opinion on the financial statements and not to opine 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 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 Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2005-001 through 2005-003.

A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when preparing 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 material weaknesses. We consider reportable condition 2005-003 listed above to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2005-001. In a separate letter to the Village's management dated August 10, 2007, we reported a matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and Village Council. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

August 10, 2007

VILLAGE OF LIBERTY CENTER
HENRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2005

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

FINDING NUMBER 2005-001

Noncompliance Citation / Reportable Condition

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

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

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Fifty percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2005-001
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language 5705.41(D) requires to authorize disbursements. The fiscal officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

Official's Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2005-002

Reportable Condition

Income Tax Control Procedures

We noted the following discrepancies over the Village's income taxes:

- The Village does not receive new customer addition confirmations from the City of Cleveland Central Collection Agency (CCA), it's third party tax collection agency, to determine if individuals were added to the taxpayer database;
- The Village is not receiving documentation from CCA that shows prior year filers who did not file in the current year;
- No Taxpayer filer and delinquency lists for 2005 or 2006 had been received by the Village.

Failure to receive and review pertinent taxpayer documentation could result in a loss of potential income tax revenue. To strengthen controls over income tax non-filers and delinquent filers, we recommend the following:

- The Village should request from CCA, at least quarterly, a list of individuals added and deleted from the taxpayer database and that list should be compared to the add and deletion requests sent by the Village in order to determine completeness of the database. The tax administrator should inquire about any inconsistencies;
- The Village should request a list of non-filers each year and determine if tax collection is possible;
- The Village should request that taxpayer and delinquent filer lists be forwarded to the tax administrator in a timely manner.

**FINDING NUMBER 2005-002
(Continued)**

We also reported this matter in the management letter of our audit of the 2004 and 2003 financial statements.

Official's Response:

We did not receive a response from Officials to this finding.

FINDING NUMBER 2005-003

Material Weakness

Monitoring of Financial Activity

Inaccurate posting of transactions, including inaccuracies in Management's Discussion and Analysis and the notes to the financial statements, impedes the ability of the Council to accurately assess the financial status of the Village. We noted the following during our audit:

- Some debt retirement was not reported in separate line items on the Village's financial statements. Some of the disbursements were reported as Capital Outlay.
- The proceeds of the sale of fixed assets were recorded as miscellaneous revenue in governmental funds and charges for services in Business type funds.
- Certain revenues were classified as charges for services revenue rather than other financing sources.
- Both Management's Discussion and Analysis and the notes to the financial statements included certain extraneous information that did not apply to the Village as well as certain disclosures that were either missing or incomplete.

As a result, the Village's financial statements did not correctly reflect the financial activity of the Village. The accompanying financial statements have been adjusted so this activity is properly reflected.

We recommend that all debt payments and revenues be included in the line items established by the Uniform Accounting Network for such purposes. Further, the Village should adopt policies and procedures including a final review of the financial statements, Management's Discussion and Analysis, and notes to the financial statements by the Fiscal Officer and Council to ensure that errors and omissions are detected and corrected.

Official's Response:

We did not receive a response from Officials to this finding.



Mary Taylor, CPA
Auditor of State

VILLAGE OF LIBERTY CENTER

HENRY 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
SEPTEMBER 6, 2007