

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

TOWN OF LIBERTY

UNION COUNTY, INDIANA

January 1, 2009 to December 31, 2010



FILED
08/10/2011

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report on Financial Statements and Supplementary Schedule of Expenditures of Federal Awards.....	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	5-6
Financial Statement(s): Statement(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	8-9
Notes to Financial Statement(s).....	10-14
Supplementary Information: Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	16-24
Schedule of Capital Assets.....	25
Schedule of Long-Term Debt	26
Audit Result(s) and Comment(s): Internal Controls Over Financial Transactions and Reporting	27
Irregularities in Utilities Collections.....	28
Supplemental Audit of Federal Awards: Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133.....	30-31
Schedule of Expenditures of Federal Awards	32
Note(s) to Schedule of Expenditures of Federal Awards	33
Schedule of Findings and Questioned Costs	34-35
Auditee Prepared Schedule(s): Summary Schedule of Prior Audit Findings	36
Corrective Action Plan.....	37
Exit Conference.....	38
Summary	39

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Cheryl Begley	01-01-08 to 12-31-11
President of the Town Council	Chris Rosenberger	01-01-09 to 12-31-11
Superintendent of Water Utility	Fielding Tipton	01-01-09 to 12-31-11
Superintendent of Wastewater Utility	Matt Reuss	01-01-09 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE TOWN OF LIBERTY, UNION COUNTY, INDIANA

We have audited the accompanying financial statements of the Town of Liberty (Town), for the years ended December 31, 2009 and 2010. These financial statements are the responsibility of the Town'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 Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Town prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position and results of operations of the Town for the years ended December 31, 2009 and 2010, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated July 21, 2011, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the Town's financial statements. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statements. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Town's management, the Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 21, 2011



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302 WEST WASHINGTON STREET
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE TOWN OF LIBERTY, UNION COUNTY, INDIANA

We have audited the financial statements of the Town of Liberty (Town), for the years ended December 31, 2009 and 2010, and have issued our report thereon dated July 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2010-1 to be a material weakness.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Town's response to the finding identified in our audit is described in the accompanying section of the report entitled Corrective Action Plan. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Town's management, the Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 21, 2011

FINANCIAL STATEMENT(S)

TOWN OF LIBERTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2009

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
General	\$ 490,043	\$ 622,012	\$ 613,660	\$ 498,395
Motor Vehicle Highway	28,098	259,456	119,146	168,408
Local Road And Street	1,856	6,799	-	8,655
Donations	2,434	2,136	4,078	492
Riverboat	77,919	12,898	-	90,817
Rainy Day	60,159	-	-	60,159
Township Fire	75,462	72,260	57,284	90,438
Law Enforcement Continuing Education	1,876	2,300	1,500	2,676
Cumulative Capital Improvement	20,983	6,320	-	27,303
Cumulative Capital Development	231,162	13,090	130	244,122
Cumulative Fire	109,239	9,900	-	119,139
County Economic Development Income Tax	443,820	62,117	-	505,937
Payroll	2,702	549,929	549,774	2,857
Wastewater Operating	145,098	770,387	814,961	100,524
Wastewater Bond And Interest	143,657	369,296	183,537	329,416
Wastewater Depreciation And Improvement	101,168	34,279	17,010	118,437
Wastewater Debt Service Reserve	157,355	74,207	62	231,500
Water Operating	27,192	420,477	358,883	88,786
Water Bond And Interest	106,740	89,598	117,708	78,630
Water Depreciation And Improvement	263,209	191,710	109,042	345,877
Water Customer Deposit	101,031	13,041	11,721	102,351
Water Construction	-	1,083,595	1,083,595	-
Water Debt Service Reserve	95,885	3,146	-	99,031
Totals	<u>\$ 2,687,088</u>	<u>\$ 4,668,953</u>	<u>\$ 4,042,091</u>	<u>\$ 3,313,950</u>

The notes to the financial statement(s) are an integral part of this statement.

TOWN OF LIBERTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General	\$ 498,395	\$ 704,421	\$ 562,697	\$ 640,119
Motor Vehicle Highway	168,408	226,148	162,202	232,354
Local Road And Street	8,655	7,040	6,878	8,817
Donations	492	1,900	862	1,530
Riverboat	90,817	12,898	-	103,715
Rainy Day	60,159	9,397	-	69,556
Levy Excess	-	1,549	-	1,549
Township Fire	90,438	68,606	78,878	80,166
Law Enforcement Continuing Education	2,676	1,503	-	4,179
DNR Grant	-	1,815	1,815	-
Cumulative Capital Improvement	27,303	6,034	-	33,337
Cumulative Capital Development	244,122	13,972	-	258,094
Cumulative Fire	119,139	9,882	-	129,021
County Economic Development Income Tax	505,937	56,417	4,500	557,854
Payroll	2,857	551,058	552,138	1,777
Wastewater Operating	100,524	774,249	784,432	90,341
Wastewater Bond And Interest	329,416	308,389	368,293	269,512
Wastewater Depreciation And Improvement	118,437	33,780	51,533	100,684
Wastewater Debt Service Reserve	231,500	61,732	-	293,232
Water Operating	88,786	381,848	357,874	112,760
Water Bond And Interest	78,630	99,158	91,951	85,837
Water Depreciation And Improvement	345,877	42,614	33,666	354,825
Water Customer Deposit	102,351	14,214	11,149	105,416
Water Construction	-	69,402	69,402	-
Water Debt Service Reserve	99,031	17	-	99,048
Totals	<u>\$ 3,313,950</u>	<u>\$ 3,458,043</u>	<u>\$ 3,138,270</u>	<u>\$ 3,633,723</u>

The notes to the financial statement(s) are an integral part of this statement.

TOWN OF LIBERTY
NOTES TO FINANCIAL INFORMATION

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Town was established under the laws of the State of Indiana. The Town operates under a Town Council form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement(s) present(s) the financial information for the Town (primary government), and does not include financial information for any of the Town's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the Town (primary government).

B. Basis of Accounting

The financial statement(s) are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Town.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

TOWN OF LIBERTY
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the Town. It includes all expenditures for the reduction of the principal and interest of the Town's general obligation indebtedness.

TOWN OF LIBERTY
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The Town may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the Town. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Town. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the Town in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Town submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Town in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

TOWN OF LIBERTY
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Town to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The Town may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the Town to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the Town by recording as a disbursement and replacement items purchased.

Note 6. Pension Plan(s)

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

TOWN OF LIBERTY
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the Town of Liberty's Annual Report(s) can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

TOWN OF LIBERTY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2009

	General	Motor Vehicle Highway	Local Road And Street	Donations	Riverboat	Rainy Day
Cash and investments - beginning	\$ 490,043	\$ 28,098	\$ 1,856	\$ 2,434	\$ 77,919	\$ 60,159
Receipts:						
Taxes	379,225	91,008	-	-	-	-
Intergovernmental	160,280	166,828	6,799	-	12,898	-
Charges for services	49,296	1,529	-	-	-	-
Fines and forfeits	4,393	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	28,818	91	-	2,136	-	-
Total receipts	<u>622,012</u>	<u>259,456</u>	<u>6,799</u>	<u>2,136</u>	<u>12,898</u>	<u>-</u>
Disbursements:						
Personal services	294,027	95,861	-	-	-	-
Supplies	27,086	15,122	-	1,563	-	-
Other services and charges	211,838	7,778	-	40	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	65,152	385	-	2,350	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	15,557	-	-	125	-	-
Total disbursements	<u>613,660</u>	<u>119,146</u>	<u>-</u>	<u>4,078</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>8,352</u>	<u>140,310</u>	<u>6,799</u>	<u>(1,942)</u>	<u>12,898</u>	<u>-</u>
Cash and investments - ending	<u>\$ 498,395</u>	<u>\$ 168,408</u>	<u>\$ 8,655</u>	<u>\$ 492</u>	<u>\$ 90,817</u>	<u>\$ 60,159</u>

TOWN OF LIBERTY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

	Township Fire	Law Enforcement Continuing Education	Cumulative Capital Improvement	Cumulative Capital Development	Cumulative Fire	County Economic Development Income Tax
Cash and investments - beginning	\$ 75,462	\$ 1,876	\$ 20,983	\$ 231,162	\$ 109,239	\$ 443,820
Receipts:						
Taxes	-	-	-	11,534	7,665	-
Intergovernmental	344	-	6,320	1,556	1,035	62,117
Charges for services	71,794	108	-	-	1,200	-
Fines and forfeits	-	1,512	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	122	680	-	-	-	-
Total receipts	<u>72,260</u>	<u>2,300</u>	<u>6,320</u>	<u>13,090</u>	<u>9,900</u>	<u>62,117</u>
Disbursements:						
Personal services	23,852	-	-	-	-	-
Supplies	4,925	-	-	-	-	-
Other services and charges	8,116	1,500	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	20,391	-	-	130	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	<u>57,284</u>	<u>1,500</u>	<u>-</u>	<u>130</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>14,976</u>	<u>800</u>	<u>6,320</u>	<u>12,960</u>	<u>9,900</u>	<u>62,117</u>
Cash and investments - ending	<u>\$ 90,438</u>	<u>\$ 2,676</u>	<u>\$ 27,303</u>	<u>\$ 244,122</u>	<u>\$ 119,139</u>	<u>\$ 505,937</u>

TOWN OF LIBERTY
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2009
(Continued)

	Payroll	Wastewater Operating	Wastewater Bond And Interest	Wastewater Depreciation And Improvement	Wastewater Debt Service Reserve	Water Operating
Cash and investments - beginning	\$ 2,702	\$ 145,098	\$ 143,657	\$ 101,168	\$ 157,355	\$ 27,192
Receipts:						
Taxes	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	744,768	-	-	-	327,888
Penalties	-	13,785	-	-	-	21,940
Other receipts	549,929	11,834	369,296	34,279	74,207	70,649
Total receipts	<u>549,929</u>	<u>770,387</u>	<u>369,296</u>	<u>34,279</u>	<u>74,207</u>	<u>420,477</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	183,418	-	62	-
Capital outlay	-	2,409	-	17,010	-	-
Utility operating expenses	-	335,143	-	-	-	201,659
Other disbursements	549,774	477,409	119	-	-	157,224
Total disbursements	<u>549,774</u>	<u>814,961</u>	<u>183,537</u>	<u>17,010</u>	<u>62</u>	<u>358,883</u>
Excess (deficiency) of receipts over disbursements	<u>155</u>	<u>(44,574)</u>	<u>185,759</u>	<u>17,269</u>	<u>74,145</u>	<u>61,594</u>
Cash and investments - ending	<u>\$ 2,857</u>	<u>\$ 100,524</u>	<u>\$ 329,416</u>	<u>\$ 118,437</u>	<u>\$ 231,500</u>	<u>\$ 88,786</u>

TOWN OF LIBERTY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2009
 (Continued)

	Water Bond And Interest	Water Depreciation And Improvement	Water Customer Deposit	Water Construction	Water Debt Service Reserve	Totals
Cash and investments - beginning	\$ 106,740	\$ 263,209	\$ 101,031	\$ -	\$ 95,885	\$ 2,687,088
Receipts:						
Taxes	-	-	-	-	-	489,432
Intergovernmental	-	-	-	-	-	418,177
Charges for services	-	-	-	-	-	123,927
Fines and forfeits	-	-	-	-	-	5,905
Utility fees	-	-	-	-	-	1,072,656
Penalties	-	-	-	-	-	35,725
Other receipts	89,598	191,710	13,041	1,083,595	3,146	2,523,131
Total receipts	89,598	191,710	13,041	1,083,595	3,146	4,668,953
Disbursements:						
Personal services	-	-	-	-	-	413,740
Supplies	-	-	-	-	-	48,696
Other services and charges	-	-	-	-	-	229,272
Debt service - principal and interest	10,426	-	-	-	-	193,906
Capital outlay	-	108,042	-	1,083,595	-	1,299,464
Utility operating expenses	-	-	-	-	-	536,802
Other disbursements	107,282	1,000	11,721	-	-	1,320,211
Total disbursements	117,708	109,042	11,721	1,083,595	-	4,042,091
Excess (deficiency) of receipts over disbursements	(28,110)	82,668	1,320	-	3,146	626,862
Cash and investments - ending	\$ 78,630	\$ 345,877	\$ 102,351	\$ -	\$ 99,031	\$ 3,313,950

TOWN OF LIBERTY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	General	Motor Vehicle Highway	Local Road And Street	Donations	Riverboat	Rainy Day
Cash and investments - beginning	\$ 498,395	\$ 168,408	\$ 8,655	\$ 492	\$ 90,817	\$ 60,159
Receipts:						
Taxes	419,743	88,880	-	-	-	-
Intergovernmental	214,213	135,939	7,040	-	12,898	9,397
Charges for services	54,129	353	-	-	-	-
Fines and forfeits	1,783	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Penalties	-	-	-	-	-	-
Other receipts	14,553	976	-	1,900	-	-
Total receipts	<u>704,421</u>	<u>226,148</u>	<u>7,040</u>	<u>1,900</u>	<u>12,898</u>	<u>9,397</u>
Disbursements:						
Personal services	297,331	101,872	-	-	-	-
Supplies	26,470	21,692	-	862	-	-
Other services and charges	205,357	9,382	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	24,739	29,256	6,878	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	8,800	-	-	-	-	-
Total disbursements	<u>562,697</u>	<u>162,202</u>	<u>6,878</u>	<u>862</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>141,724</u>	<u>63,946</u>	<u>162</u>	<u>1,038</u>	<u>12,898</u>	<u>9,397</u>
Cash and investments - ending	<u>\$ 640,119</u>	<u>\$ 232,354</u>	<u>\$ 8,817</u>	<u>\$ 1,530</u>	<u>\$ 103,715</u>	<u>\$ 69,556</u>

TOWN OF LIBERTY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Levy Excess	Township Fire	Law Enforcement Continuing Education	DNR Grant	Cumulative Capital Improvement
Cash and investments - beginning	\$ -	\$ 90,438	\$ 2,676	\$ -	\$ 27,303
Receipts:					
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	1,815	6,034
Charges for services	-	67,611	975	-	-
Fines and forfeits	-	-	528	-	-
Utility fees	-	-	-	-	-
Penalties	-	-	-	-	-
Other receipts	1,549	995	-	-	-
Total receipts	<u>1,549</u>	<u>68,606</u>	<u>1,503</u>	<u>1,815</u>	<u>6,034</u>
Disbursements:					
Personal services	-	23,852	-	-	-
Supplies	-	13,768	-	1,815	-
Other services and charges	-	6,502	-	-	-
Debt service - principal and interest	-	-	-	-	-
Capital outlay	-	34,756	-	-	-
Utility operating expenses	-	-	-	-	-
Other disbursements	-	-	-	-	-
Total disbursements	<u>-</u>	<u>78,878</u>	<u>-</u>	<u>1,815</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>1,549</u>	<u>(10,272)</u>	<u>1,503</u>	<u>-</u>	<u>6,034</u>
Cash and investments - ending	<u>\$ 1,549</u>	<u>\$ 80,166</u>	<u>\$ 4,179</u>	<u>\$ -</u>	<u>\$ 33,337</u>

TOWN OF LIBERTY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Cumulative Capital Development	Cumulative Fire	County Economic Development Income Tax	Payroll	Wastewater Operating
Cash and investments - beginning	\$ 244,122	\$ 119,139	\$ 505,937	\$ 2,857	\$ 100,524
Receipts:					
Taxes	11,460	7,616	-	-	-
Intergovernmental	2,512	1,671	56,417	-	-
Charges for services	-	595	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	-	-	-	735,723
Penalties	-	-	-	-	13,573
Other receipts	-	-	-	551,058	24,953
Total receipts	<u>13,972</u>	<u>9,882</u>	<u>56,417</u>	<u>551,058</u>	<u>774,249</u>
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	4,500	-	-
Debt service - principal and interest	-	-	-	-	-
Capital outlay	-	-	-	-	1,813
Utility operating expenses	-	-	-	-	378,718
Other disbursements	-	-	-	552,138	403,901
Total disbursements	<u>-</u>	<u>-</u>	<u>4,500</u>	<u>552,138</u>	<u>784,432</u>
Excess (deficiency) of receipts over disbursements	<u>13,972</u>	<u>9,882</u>	<u>51,917</u>	<u>(1,080)</u>	<u>(10,183)</u>
Cash and investments - ending	<u>\$ 258,094</u>	<u>\$ 129,021</u>	<u>\$ 557,854</u>	<u>\$ 1,777</u>	<u>\$ 90,341</u>

TOWN OF LIBERTY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Wastewater Bond And Interest	Wastewater Depreciation And Improvement	Wastewater Debt Service Reserve	Water Operating	Water Bond And Interest
Cash and investments - beginning	\$ 329,416	\$ 118,437	\$ 231,500	\$ 88,786	\$ 78,630
Receipts:					
Taxes	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	-	-	347,309	-
Penalties	-	-	-	2,308	-
Other receipts	308,389	33,780	61,732	32,231	99,158
Total receipts	<u>308,389</u>	<u>33,780</u>	<u>61,732</u>	<u>381,848</u>	<u>99,158</u>
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	-
Debt service - principal and interest	368,293	-	-	-	-
Capital outlay	-	51,533	-	-	-
Utility operating expenses	-	-	-	181,271	-
Other disbursements	-	-	-	176,603	91,951
Total disbursements	<u>368,293</u>	<u>51,533</u>	<u>-</u>	<u>357,874</u>	<u>91,951</u>
Excess (deficiency) of receipts over disbursements	<u>(59,904)</u>	<u>(17,753)</u>	<u>61,732</u>	<u>23,974</u>	<u>7,207</u>
Cash and investments - ending	<u>\$ 269,512</u>	<u>\$ 100,684</u>	<u>\$ 293,232</u>	<u>\$ 112,760</u>	<u>\$ 85,837</u>

TOWN OF LIBERTY
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Water Depreciation And Improvement	Water Customer Deposit	Water Construction	Water Debt Service Reserve	Totals
Cash and investments - beginning	\$ 345,877	\$ 102,351	\$ -	\$ 99,031	\$ 3,313,950
Receipts:					
Taxes	-	-	-	-	527,699
Intergovernmental	-	-	-	-	447,936
Charges for services	-	-	-	-	123,663
Fines and forfeits	-	-	-	-	2,311
Utility fees	-	-	-	-	1,083,032
Penalties	-	-	-	-	15,881
Other receipts	42,614	14,214	69,402	17	1,257,521
Total receipts	42,614	14,214	69,402	17	3,458,043
Disbursements:					
Personal services	-	-	-	-	423,055
Supplies	-	-	-	-	64,607
Other services and charges	-	-	-	-	225,741
Debt service - principal and interest	-	-	-	-	368,293
Capital outlay	33,666	-	69,402	-	252,043
Utility operating expenses	-	11,135	-	-	571,124
Other disbursements	-	14	-	-	1,233,407
Total disbursements	33,666	11,149	69,402	-	3,138,270
Excess (deficiency) of receipts over disbursements	8,948	3,065	-	17	319,773
Cash and investments - ending	\$ 354,825	\$ 105,416	\$ -	\$ 99,048	\$ 3,633,723

TOWN OF LIBERTY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2010

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 5,000
Infrastructure	527,850
Buildings	195,247
Improvements other than buildings	285,977
Machinery and equipment	<u>960,378</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 1,974,452</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 24,241
Construction in progress	1,239,484
Buildings	165,388
Improvements other than buildings	2,796,187
Machinery and equipment	<u>189,481</u>
 Total Water Utility capital assets	 <u>4,414,781</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	71,666
Construction in progress	383,443
Buildings	1,192,078
Improvements other than buildings	3,638,135
Machinery and equipment	<u>2,428,884</u>
 Total Wastewater Utility capital assets	 <u>7,714,206</u>
 Total business-type activities capital assets	 <u>\$ 12,128,987</u>

TOWN OF LIBERTY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

The Town has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Business-type activities:		
Water Utility:		
Revenue bonds:		
2002 Water Improvement	\$ 668,000	\$ 70,618
2009 State Revolving Loan	<u>690,477</u>	<u>26,638</u>
Total Water Utility	<u>1,358,477</u>	<u>97,256</u>
Wastewater Utility:		
Revenue bonds:		
2006 State Revolving Loan	<u>4,968,623</u>	<u>367,105</u>
Total business-type activities debt	<u>\$ 6,327,100</u>	<u>\$ 464,361</u>

TOWN OF LIBERTY
AUDIT RESULT(S) AND COMMENT(S)

INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.
2. Preparing Financial Statements: Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.
3. Monitoring of Controls: Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7) (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1) (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

TOWN OF LIBERTY
AUDIT RESULT(S) AND COMMENT(S)

IRREGULARITIES IN UTILITIES COLLECTIONS

On September 19, 2010, the Clerk-Treasurer, Cheryl Begley, called a State Board of Accounts Field Examiner with information that a deputy clerk-treasurer had stolen some utility collections. The Clerk-Treasurer had fired the deputy clerk-treasurer after confronting her with the information. Subsequent investigation into the report disclosed that \$1,176.83 of cash collections from August 30, 2010, were not finalized within the accounts receivable system, not posted to the individual accounts, not included in the Cash Deposit Report, and not deposited in the bank. (See Summary, page 39)

Further investigation of collections for the year 2010 disclosed no irregularities in accounts receivable collections or deposits.

On September 25, 2010, the Clerk-Treasurer, Cheryl Begley, personally deposited \$1,199.17 into the utilities' bank account. The Cash Deposit Report for September 25, 2010, included accounts not included in the August 30, 2010, Cash Deposit Report and penalties that those accounts incurred due to late payment totaling \$22.34.

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
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Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE TOWN OF LIBERTY, UNION COUNTY, INDIANA

Compliance

We have audited the compliance of the Town of Liberty (Town) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the years ended December 31, 2009 and 2010. The Town's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town's management. Our responsibility is to express an opinion on the Town's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Town's compliance with those requirements.

In our opinion, the Town complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the years ended December 31, 2009 and 2010.

Internal Control Over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Town's management, the Town Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

July 21, 2011

TOWN OF LIBERTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Years Ended December 31, 2009 and 2010

Federal Grantor Agency/Pass-Through Entity Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended 12-31-09	Total Federal Awards Expended 12-31-10
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
Pass-Through Indiana Department of Natural Resources Cooperative Forestry Assistance ExacTarget Tree Planting Project 09-DG-11420004-155	10.664		\$ 2,350	\$ -
			<u>-</u>	<u>1,815</u>
Total for federal grantor agency			<u>2,350</u>	<u>1,815</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Pass-Through Indiana Office of Community and Rural Affairs Community Development Block Grants - State's Program Disaster Recovery Grant	14.228	DR1A-09-051	<u>-</u>	<u>1,215</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Pass-Through Indiana Finance Authority ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW 09048102	464,600	-
Capitalization Grants for Drinking Water State Revolving Funds	66.468	DW 09048102	<u>243,284</u>	<u>32,101</u>
Total for federal grantor agency			<u>707,884</u>	<u>32,101</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Pass-Through Indiana Department of Homeland Security Disaster Grants - Public Assistance Disaster # 1795-DR	97.036		<u>20,757</u>	<u>-</u>
Total federal awards expended			<u>\$ 730,991</u>	<u>\$ 35,131</u>

The accompanying note(s) are an integral part of the Schedule of Expenditures of Federal Awards.

TOWN OF LIBERTY
NOTE(S) TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Town of Liberty (Town) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

Circular A-133 requires an annual audit of nonfederal entities expending a total amount of federal awards equal to or in excess of \$500,000 in any fiscal year unless by constitution or statute a less frequent audit is required. In accordance with the Indiana Code (IC 5-11-1 et seq.), audits of Towns with populations under 5,000 shall be conducted biennially. Such audits shall include both years within the biennial period.

TOWN OF LIBERTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement(s):

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiency identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiency identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
66.468	Capitalization Grants for Drinking Water – State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

FINDING 2010-1 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the Town related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

1. Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the Town to reduce risks to achievement of financial reporting objectives. The Town has not separated incompatible activities related to receipts, utility billings and collections, disbursements, payroll and related liabilities, and cash and investment balances. The failure to establish these controls could enable material misstatements or irregularities to undetected.

TOWN OF LIBERTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

2. **Preparing Financial Statements:** Effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Town's audited financial statements and then determining how those identified risks should be managed. The Town has not identified risks to the preparation of reliable financial statements and as a result has failed to design effective controls over the preparation of the financial statements to prevent or detect material misstatements, including notes to the financial statements.

3. **Monitoring of Controls:** Effective internal control over financial reporting requires the Town Council to monitor and assess the quality of the Town's system of internal control. The Town Council has not performed either an ongoing or separate evaluation of their system of internal controls. The failure to exercise their oversight responsibility places the Town at risk that controls may not be designed or operating effectively to provide reasonable assurance that controls will prevent or detect material misstatements in a timely manner. Additionally, the Town has no process to identify or communicate corrective actions to improve controls.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7) (Accounting and Uniform Compliance Guidelines Manual for Counties of Indiana, Chapter 1) (Accounting and Uniform Compliance Guidelines Manual for Indiana Public School Corporations, Chapter 9)

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

TOWN OF LIBERTY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

Corporation of Liberty
P.O.BOX 7 LIBERTY, IN 47353
765-458-5823
Cheryl Begley, Clerk-Treasurer

Chris Rosenberger- President
Gerald Paul
Pete Petro

Ross Keasling-Vice President
Jim Hensley
Mike Douglass-Attorney

July 21, 2011

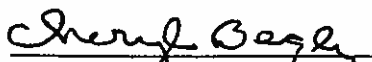
Corrective Action Plan
Finding 2010-1 Segregation of Duties

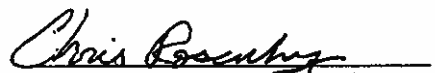
Contact Person: Cheryl Begley

The Town of Liberty is aware of the risks associated with a limited staff and has determined the benefits of hiring additional staff in order that all accounting functions are performed by different individuals are not sufficient to justify the increase in cost to the taxpayers of hiring additional staff.

The town has compensating controls including oversight of the Town Council provided on a monthly basis through reviewing monthly bank reconcilements and balance reports.

The Clerk Treasurer provides each of the five council members at the council meeting a balance sheet showing the month's beginning balance, the approved budget amount for each fund the disbursements for each fund and the balance of each fund.


Cheryl Begley, Clerk-Treas.


Chris Rosenberger, Council Pres.

TOWN OF LIBERTY
EXIT CONFERENCE

The contents of this report were discussed on July 21, 2011, with Chris Rosenberger, President of the Town Council, and Cheryl Begley, Clerk-Treasurer.

TOWN OF LIBERTY
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Cheryl Begley, Clerk-Treasurer:			
Irregularities in Utilities Collections, page 28	<u>\$ 1,199.17</u>	<u>\$ 1,199.17</u>	<u>\$ -</u>