VILLAGE OF FRANKFORT
ROSS COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2005

Auditor of State
Betty Montgomery

**VILLAGE OF FRANKFORT**
**ROSS COUNTY**

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**Auditor of State**
**Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Frankfort
Ross County
20 N. Main Street
P.O. Box 351
Frankfort, Ohio 45628

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 Frankfort, Ross 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 Frankfort, Ross County, Ohio, as of December 31, 2005, and the respective changes in modified cash financial position and the respective budgetary comparisons for the General and Street Construction, Maintenance and Repair Funds 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*.

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In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2006, 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.

The Village did not present Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Betty Montgomery

**Betty Montgomery**
Auditor of State

October 6, 2006

## *VILLAGE OF FRANKFORT, ROSS COUNTY*
## *ROSS COUNTY*

### *STATEMENT OF NET ASSETS - MODIFIED CASH BASIS*
### *DECEMBER 31, 2005*

| | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| ***Assets:*** | | | |
| Equity in Pooled Cash and Cash Equivalents | $597,501 | $503,428 | $1,100,929 |
| Investments | 75,000 | 65,000 | 140,000 |
| *Total Assets* | 672,501 | 568,428 | 1,240,929 |
| ***Net Assets:*** | | | |
| *Restricted for:* | | | |
| Other Purposes | 210,430 | 0 | 210,430 |
| Unrestricted | 462,071 | 568,428 | 1,030,499 |
| *Total Net Assets* | $672,501 | $568,428 | $1,240,929 |

See accompanying notes to the basic financial statements.

*VILLAGE OF FRANKFORT*
*ROSS COUNTY*

*STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS*
*FOR THE YEAR ENDED DECEMBER 31, 2005*

| | | Program Revenues | |
|---|---|---|---|
| | Cash Disbursements | Charges for Services and Sales | Operating Grants, Contributions and Interest |
| ***Governmental Activities:*** | | | |
| Security of Persons and Property | 19,331 | 0 | 0 |
| Basic Utility Services | 3,200 | 0 | 0 |
| Leisure Time Activities | 4,076 | 0 | 0 |
| Transportation | 13,486 | 0 | 46,490 |
| General Government | 64,756 | 0 | 0 |
| Capital Outlay | 17,816 | 0 | 0 |
| *Total Governmental Activities* | 122,665 | 0 | 46,490 |
| ***Business-Type Activities:*** | | | |
| Water Fund | 132,900 | 120,810 | 0 |
| Sewer Fund | 216,859 | 219,731 | 0 |
| *Total Business Type Activities* | 349,759 | 340,541 | 0 |
| *Total Primary Government* | $472,424 | $340,541 | $46,490 |

***General Receipts:***
Property Taxes
Other Taxes
Grants and Entitlements not Restricted to Specific Programs
Earnings on Investments
Miscellaneous
*Total General Receipts*

Transfers

*Total General Revenues 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 (Expense) Revenue and Changes in Net Assets | | |
|---|---|---|
| Governmental Activities | Business-Type Activities | Total |
| ($19,331) | $0 | ($19,331) |
| (3,200) | 0 | (3,200) |
| (4,076) | 0 | (4,076) |
| 33,004 | 0 | 33,004 |
| (64,756) | 0 | (64,756) |
| (17,816) | 0 | (17,816) |
| (76,175) | 0 | (76,175) |
| 0 | (12,090) | (12,090) |
| 0 | 2,872 | 2,872 |
| (76,175) | (9,218) | (9,218) |
| (76,175) | (9,218) | (85,393) |
| 31,109 | 0 | 31,109 |
| | 0 | 0 |
| 78,995 | 0 | 78,995 |
| 24,545 | 0 | 24,545 |
| 5,002 | 3,329 | 8,331 |
| 139,651 | 3,329 | 142,980 |
| (23,457) | 23,457 | 0 |
| 116,194 | 26,786 | 142,980 |
| 40,019 | 17,568 | 57,587 |
| 632,482 | 550,860 | 1,183,342 |
| $672,501 | $568,428 | $1,240,929 |

**_VILLAGE OF FRANKFORT_**
**_ROSS COUNTY_**

**_STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES_**
**_GOVERNMENTAL FUNDS_**
**_DECEMBER 31, 2005_**

| | General | Street Construction Maintenance and Repair | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|
| ***Assets:*** | | | | |
| Equity in Pooled Cash and Cash Equivalents | $387,071 | $198,582 | $11,848 | $597,501 |
| Investments | 75,000 | 0 | 0 | 75,000 |
| *Total Assets* | $462,071 | $198,582 | $11,848 | $672,501 |
| ***Fund Balances:*** | | | | |
| *Unreserved, Reported in:* | | | | |
| General Fund | $462,071 | $0 | $0 | $462,071 |
| Special Revenue Funds | 0 | 198,582 | 11,848 | 210,430 |
| *Total Fund Balances* | $462,071 | $198,582 | $11,848 | $672,501 |

See accompanying notes to the basic financial statements.

## VILLAGE OF FRANKFORT
## ROSS COUNTY

### STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN MODIFIED CASH BASIS FUND BALANCES - GOVERNMENTAL FUNDS
### FOR THE YEAR ENDED DECEMBER 31, 2005

| | General | Street Construction Maintenance and Repair | Other Governmental Funds | Total |
|---|---|---|---|---|
| **Receipts:** | | | | |
| Property and Other Local Taxes | $31,109 | $0 | $0 | $31,109 |
| Intergovernmental | 78,995 | 43,335 | 30 | 122,360 |
| Earnings on Investments | 24,545 | 3,125 | 0 | 27,670 |
| Miscellaneous | 4,395 | 0 | 607 | 5,002 |
| *Total Receipts* | 139,044 | 46,460 | 637 | 186,141 |
| **Disbursements:** | | | | |
| *Current:* | | | | |
| Security of Persons and Property | 19,331 | 0 | 0 | 19,331 |
| Leisure Time Activities | 3,692 | 0 | 384 | 4,076 |
| Basic Untility Services | 3,200 | 0 | 0 | 3,200 |
| Transportation | 800 | 12,686 | 0 | 13,486 |
| General Government | 64,756 | 0 | 0 | 64,756 |
| Capital Outlay | 11,201 | 0 | 6,615 | 17,816 |
| *Total Disbursements* | 102,980 | 12,686 | 6,999 | 122,665 |
| *Excess if Revenues Over (Under) Expenditures* | 36,064 | 33,774 | (6,362) | 63,476 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers Out | (23,457) | 0 | 0 | (23,457) |
| *Total Other Financing Sources (Uses)* | (23,457) | 0 | 0 | (23,457) |
| *Net Change in Fund Balance* | 12,607 | 33,774 | (6,362) | 40,019 |
| Fund Balance Beginning of Year | 449,464 | 164,808 | 18,210 | 632,482 |
| *Fund Balances End of Year* | $462,071 | $198,582 | $11,848 | $672,501 |

See accompanying notes to the basic financial statements.

***VILLAGE OF FRANKFORT***
***ROSS COUNTY***

***STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES***
***IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS)***
***GENERAL FUND***
***FOR THE YEAR ENDED DECEMBER 31, 2005***

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| ***Receipts*** | | | | |
| Property Taxes and Other Local Taxes | $28,800 | $28,800 | $31,109 | $2,309 |
| Intergovernmental | 55,347 | 55,347 | 78,995 | 23,648 |
| Earnings on Investments | 35,000 | 35,000 | 24,545 | (10,455) |
| Miscellaneous | 4,150 | 4,150 | 4,395 | 245 |
| *Total Receipts* | 123,297 | 123,297 | 139,044 | 15,747 |
| ***Disbursements:*** | | | | |
| *Current:* | | | | |
| Security of Persons and Property | 28,500 | 28,500 | 19,331 | 9,169 |
| Leisure Time Activities | 6,000 | 6,000 | 3,692 | 2,308 |
| Basic Utility Services | 6,900 | 6,900 | 3,200 | 3,700 |
| Transportation | 6,000 | 6,000 | 800 | 5,200 |
| General Government | 80,357 | 80,357 | 64,756 | 15,601 |
| Capital Outlay | 18,000 | 18,000 | 11,201 | 6,799 |
| *Total Disbursements:* | 145,757 | 145,757 | 102,980 | 42,777 |
| ***Other Financing Sources (Uses)*** | | | | |
| Transfers Out | (25,000) | (25,000) | (23,457) | 1,543 |
| *Net Change in Fund Balance* | (47,460) | (47,460) | 12,607 | 60,067 |
| *Fund Balance at Beginning of Year* | 449,464 | 449,464 | 449,464 | 0 |
| *Fund Balance at End of Year* | $402,004 | $402,004 | $462,071 | $60,067 |

See accompanying notes to the basic financial statements.

***VILLAGE OF FRANKFORT***
***ROSS COUNTY***

***STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (BUDGET BASIS) STREET CONSTRUCTION, MAINTENANCE AND REPAIR FOR THE YEAR ENDED DECEMBER 31, 2005***

| | Budgeted Amounts | | | Variance with Final Budget Positive |
|---|---|---|---|---|
| | Original | Final | Actual | (Negative) |
| ***Revenues:*** | | | | |
| Intergovernmental | $36,100 | $36,100 | $43,335 | $7,235 |
| Earnings on Investments | 2,100 | 2,100 | 3,125 | 1,025 |
| *Total Revenues* | 38,200 | 38,200 | 46,460 | 8,260 |
| ***Expenditures:*** | | | | |
| Current: | | | | |
| Transportation | 30,741 | 30,741 | 12,686 | 18,055 |
| Capital Outlay | 3,600 | 3,600 | 0 | 3,600 |
| *Total Expenditures* | 34,341 | 34,341 | 12,686 | 21,655 |
| *Net Change in Fund Balance* | 3,859 | 3,859 | 33,774 | 29,915 |
| *Fund Balance at Beginning of Year* | 164,808 | 164,808 | 164,808 | 0 |
| *Fund Balance at End of Year* | $168,667 | $168,667 | $198,582 | $29,915 |

See accompanying notes to the basic financial statements.

***VILLAGE OF FRANKFORT***
***ROSS COUNTY***

***STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS***
***PROPRIETARY FUNDS***
***DECEMBER 31, 2005***

| | Water Fund | Sewer Fund | Total Enterprise Funds |
|---|---|---|---|
| ***Assets:*** | | | |
| Equity in Pooled Cash and Cash Equivalents | $219,477 | $283,951 | $503,428 |
| Investments | 25,000 | 40,000 | 65,000 |
| *Total Assets* | 244,477 | 323,951 | 568,428 |
| ***Net Assets:*** | | | |
| Unrestricted | $244,477 | $323,951 | $568,428 |
| *Total Net Assests:* | $244,477 | $323,951 | $568,428 |

See accompanying notes to the basic financial statements.

## *VILLAGE OF FRANKFORT*
## *ROSS COUNTY*

### *STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED DECEMBER 31, 2005*

| | Water Fund | Sewer Fund | Enterprise Total |
|---|---|---|---|
| ***Operating Receipts:*** | | | |
| Charges for Services | $120,810 | $219,731 | $340,541 |
| *Total Operating Receipts* | 120,810 | 219,731 | 340,541 |
| ***Operating Disbursements:*** | | | |
| Personal Services | 44,032 | 43,992 | 88,024 |
| Employee Fringe Benefits | 19,789 | 19,783 | 39,572 |
| Contractional Services | 32,558 | 45,844 | 78,402 |
| Supplies and Materials | 8,135 | 2,089 | 10,224 |
| Other | 3,400 | 0 | 3,400 |
| *Total Operating Expenses* | 107,914 | 111,708 | 219,622 |
| *Operating Income* | 12,896 | 108,023 | 120,919 |
| ***Non-Operating Receipts (Disbursements):*** | | | |
| Miscellaneous Receipts | 988 | 2,341 | 3,329 |
| Capital Outlay | (1,529) | (3,130) | (4,659) |
| Principal Payments | (19,286) | (62,837) | (82,123) |
| Interest and Fiscal Charges | (4,171) | (39,184) | (43,355) |
| *Total Non-Operating Receipts (Disbursements)* | (23,998) | (102,810) | (126,808) |
| Income (Loss) before Transfers | (11,102) | 5,213 | (5,889) |
| Transfers In | 23,457 | 0 | 23,457 |
| Change in Net Assets | 12,355 | 5,213 | 17,568 |
| Net Assets Beginning of Year | 232,122 | 318,738 | 550,860 |
| Net Assets End of Year | $244,477 | $323,951 | $568,428 |

See accompanying notes to the basic financial statements.

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## Note 1 - Reporting Entity

The Village of Frankfort, Ross County, Ohio, is a body corporate and politic established in 1828 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 and votes only to break a tie.

### 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 Ross County Sheriff's Department to provide police protection. The Village contracts with the Concord Township Fire Department to provide fire protection services.

### 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 has no component units.

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. The Village has no joint ventures with any other entities or organizations.

A jointly governed organization is a regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. The Village participates in the Public Entities Pool of Ohio (PEP), a public entity risk sharing pool. Note 7 to the financial statements provides additional information for this entity.

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

In the government-wide financial statements and the fund financial statements for the enterprise 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. The following are the more significant of the Village's accounting policies.

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 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.

Enterprise 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 fund statements report all other receipts and disbursements as nonoperating.

**Note 2 - Summary of Significant Accounting Policies** (continued)

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.

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 and the Street Construction, Maintenance and Repair Fund. The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio. The Street Construction, Maintenance and Repair Fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets. 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. This fund also accounts for the debt related to the expansion of the water treatment facility.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village. This fund also accounts for the debt related to the sewer service expansion that was required by the Environmental Protection Agency (EPA).

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 expenses and liabilities) are not recorded in these financial statements.

**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 Village initially appropriates at the object level for all funds; however, subsequent amendments are only prepared at the fund level.

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; except for the certificates of deposits in the General, Water and Sewer funds. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents". The certificates of deposits in the General, Water and Sewer are presented as Investments.

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 (contra revenue), respectively.

During 2005, the Village invested in nonnegotiable certificates of deposit. The nonnegotiable certificates of deposit 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 $24,545 which includes $14,141 assigned from other Village funds.

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.

**Note 2 - Summary of Significant Accounting Policies** (continued)

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 25% of unused sick 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 8 and 9, 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. Since recording a capital asset when entering into a capital lease is not the result of a cash transaction, neither an other financing source nor a capital outlay expenditure are reported at inception. Lease payments are reported when paid. The Village had no lease agreements during 2005.

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 state and federal grants.

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 needed for appropriation or which is legally segregated for a specific future use. Unreserved, undesignated fund balance indicates that portion of fund balance which is available for appropriation in future periods. The Village had no fund balance reserves or designations as of year end.

**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 new GASB Pronouncement**

For the year ended December 31, 2004, 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. This change in the basis of accounting had no effect on the prior period fund balances and net assets of governmental and enterprise funds.

Also the Village implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures." The implementation of GASB Statement No. 40 had some effect on the disclosure requirements; however, there was no effect on the prior period fund balances of the Village.

**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 and the Street Construction, Maintenance and Repair Funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. There are no differences between the budget basis and the modified cash basis.

**Note 5 - Equity in Pooled Cash and Cash Equivalents**

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.

Inactive deposits are public deposits that Council has identified as not required for use within the current 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.

**Note 5 - Equity in Pooled Cash and Cash Equivalents** (continued)

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; Citizens National Bank (local bank in the village)

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. The Village's investment policy states that investments may only be made through the Citizens National Bank or Star Ohio.

A. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Village's deposits may not be returned. At year end, $966,676 of the Village's bank balances of $1,166,676, was exposed to custodial risk as discussed above, while $200,000 was covered by Federal Deposit Insurance. The $966,676 exposed to custodial credit risk was collateralized by a pool of securities pledged by the financial institution and held by a qualified trustee to secure repayment of all public monies deposited with the financial institution.

**Note 5 - Equity in Pooled Cash and Cash Equivalents** (continued)

The Village has no deposit policy for custodial credit 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, by a surety company bond, 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.

B. Investments

As of December 31, 2005, the Village had the following investments and maturities:

| | Fair Value | Less Than One Year |
|---|---|---|
| Certificate of Deposits | 140,000 | 140,000 |
| Total Investments | $140,000 | $140,000 |

The Certificates of Deposit are nonnegotiable certificates of deposit which are matched to the General fund for the operation of the Village and the Water and Sewer funds for operation of the water and sewer utilities.

**Note 6 - 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 2004 became a lien on December 31, 2003, 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.

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.

**Note 6 - Property Taxes** (continued)

The full tax rate for all Village operations for the year ended December 31, 2005 was $3.90 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 | $9,836,920 |
| Agriculture | 25,090 |
| Commercial/Industrial/Mineral | 1,963,530 |
| Public Utility Property | 339,880 |
| Tangible Personal Property | 812,970 |
| Total Assessed Value | $12,978,390 |

**Note 7 - Risk Management**

The Village belongs to the Public Entities Pool of Ohio, (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty insurance for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). The Village pays an annual contribution to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

PEP retains casualty risks up to $250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding $250,000, up to $1,750,000 per claim and $5,000,000 in the aggregate year. Governments can elect additional coverage from $2,000,000 with General Reinsurance Corporation, through contracts with PEP. If losses exhaust PEP's retained earnings, APEEP covers PEP losses up to $5,000,000 per year, subject to a per-claim limit of $2,000,000.

Beginning in 2005, Travelers Indemnity Company reinsures specific losses exceeding $250,000 up to $600 million per occurrence. APEEP reinsures members for specific losses exceeding $100,000 up to $250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between $100,000 and $250,000, Travelers will reinsure specific losses exceeding $100,000 up to their $600 million per occurrence limit. The aggregate stop-loss limit for 2005 was $1,682,589.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

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

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005:

| Casualty Coverage | 2005 | 2004 |
|---|---|---|
| Assets | $29,719,675 | $27,437,169 |
| Liabilities | (15,994,168) | (13,880,038) |
| Retained earnings | $13,725,507 | $13,557,131 |

| Property Coverage | 2005 | 2004 |
|---|---|---|
| Assets | $4,443,332 | $3,648,272 |
| Liabilities | (1,068,245) | (540,073) |
| Retained earnings | $3,375,087 | $3,108,199 |

The Casualty Coverage assets and retained earnings above include approximately $14.3 million and $12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Village's share of these unpaid claims is approximately $19,422.

**Note 8 - Defined Benefit Pension Plans**

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.

**Note 8 - Defined Benefit Pension Plans** (continued)

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 were required to contribute 9 percent of their annual covered salaries. The Village's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Village's required contributions for pension obligations to the traditional, member directed and combined plans for the years ended December 31, 2005, 2004, and 2003 were $11,170, $11,799, and $10,988 respectively. The full amount has been contributed for 2005, 2004 and 2003. Contributions made by the Village employees were $9,942.

**Note 9 - Postemployment Benefits**

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); 4.00 percent of covered payroll was the portion that was used to fund health care.

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 6.3 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.

At December 31, 2005, 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 $4,679. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, were $10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $29.5 billion and $18.7 billion, respectively.

**Note 9 - Postemployment Benefits** (continued)

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 10 - Debt**

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

| | Interest Rate | Balance December 31, 2004 | Additions | Reductions | Balance December 31, 2005 | Due Within One Year |
|---|---|---|---|---|---|---|
| Business-type Activities | | | | | | |
| 1995 OWDA Waste Water Treatment Plant Loan | 4.56% | $874,828 | $0 | $62,837 | $811,991 | $65,735 |
| 2004 OPWC Loan Water Treatment Plant Loan | 0.00% | 237,500 | 0 | 12,500 | 225,000 | 12,500 |
| 2003 Citizens National Bank Water Treatment Plant Loan | 3.75% | 112,796 | 0 | 6,786 | 106,010 | 7,489 |
| Total Business-type Activities | | $1,225,124 | $0 | $82,123 | $1,143,001 | $85,724 |

The Ohio Water Development Authority (OWDA) loan relates to a sewer system expansion project that was mandated by the Ohio Environmental Protection Agency. The loan will be repaid in semiannual installments of $51,011, including interest, over 20 years. The loan is secured by sewer receipts collected for the repayment of the debt. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Ohio Public Works Commission (OWPC) loan is an interest free loan the village received to rehabilitate the water treatment plant. The loan is being repaid in semiannual installments of $6,250. The Village has agreed to set utility rates sufficient to cover OPWC debt service requirements; however, the Village currently transfers funds from the General fund to repay this debt. This is a violation of paragraph… of the Village's loan agreement with OPWC.

The Citizens National Bank Water Treatment Plan Loan is collateralized by the Village's taxing authority and is repayable over 60 months at an interest rate of 3.75%. This note was issued for improvements to the Village water treatment plant and will be repaid from transfers from the General Fund.

**Note 10 - Debt** (continued)

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

| Year ending December 31: | OWDA Loan | OPWC Loan | Bank Note |
|---|---|---|---|
| 2006 | $102,021 | $12,500 | $10,957 |
| 2007 | 102,021 | 12,500 | 10,957 |
| 2008 | 102,021 | 12,500 | 91,639 |
| 2009 | 102,021 | 12,500 | 0 |
| 2010 | 102,021 | 12,500 | 0 |
| 2011-2015 | 510,105 | 62,500 | 0 |
| 2016-2020 | 0 | 62,500 | 0 |
| 2021-2023 | 0 | 37,500 | 0 |
| Total | $1,020,211 | $225,000 | $113,553 |

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. The effects of the debt limitations at December 31, 2005, were an overall debt margin of $1,256,721 and an unvoted debt margin of $607,801.

**Note 11 - Interfund Transfers**

During 2005 the following transfers were made:

| | |
|---|---|
| Transfers from the General Fund to: | |
| Water Fund | 23,457 |
| Total Transfers from the General Fund | $23,457 |

Transfers represent the allocation of unrestricted receipts collected in the General Fund to repay the debt related to water treatment plant rehabilitation. These transfers are approved by Council by resolution annually.

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**Auditor of State**
**Betty Montgomery**

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

Village of Frankfort
Ross County
20 N. Main Street
P.O. Box 351
Frankfort, Ohio 45628

To the Village Council:

We have audited the financial statements of the Village of Frankfort, Ross County, Ohio, (the Village) as of and for the year ended December 31, 2005, and have issued our report thereon dated October 6, 2006 wherein we noted 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.* We also noted that 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 to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Village's management dated October 6, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

35 N. Fourth St. / Second Floor / Columbus, OH 43215
Telephone: (614) 466-3402 (800) 443-9275 Fax: (614) 728-7199
www.auditor.state.oh.us

## 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Village's management dated October 6, 2006, we reported other matters related to noncompliance we deemed immaterial.

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

Betty Montgomery

**Betty Montgomery**
Auditor of State

October 6, 2006

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

**VILLAGE OF FRANKFORT**

**ROSS COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**NOVEMBER 9, 2006**