



**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2007-2006



Mary Taylor, CPA
Auditor of State

VILLAGE OF FREDERICKTOWN
KNOX COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2007	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2006.....	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19
Schedule of Prior Audit Findings	24

THIS PAGE INTENTIONALLY LEFT BLANK



Mary Taylor, CPA
Auditor of State

Village of Fredericktown
Knox County
2 East Sandusky Street
Fredericktown, Ohio 43019

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your Village to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 4, 2008

THIS PAGE INTENTIONALLY LEFT BLANK



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Fredericktown
Knox County
2 East Sandusky Street
Fredericktown, Ohio 43019

To the Village Council:

We have audited the accompanying financial statements of the Village of Fredericktown, Knox County, Ohio, (the Village) as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Village's to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2007 and 2006 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2007 and 2006, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Fredericktown, Knox County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 4, 2008, 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.

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

Mary Taylor, CPA
Auditor of State

September 4, 2008

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 126,581	\$ -	\$ 126,581
Municipal Income Tax	387,576	-	387,576
Intergovernmental	82,229	140,712	222,941
Charges for Services	116	-	116
Fines, Licenses and Permits	17,313	-	17,313
Earnings on Investments	5,610	7,000	12,610
Miscellaneous	17,434	-	17,434
	<hr/>	<hr/>	<hr/>
Total Cash Receipts	636,859	147,712	784,571
	<hr/>	<hr/>	<hr/>
Cash Disbursements:			
Current:			
Security of Persons and Property	312,836	-	312,836
Public Health Services	1,608	-	1,608
Community Environment	3,421	-	3,421
Basic Utility Service	5,054	-	5,054
Transportation	133,103	134,031	267,134
General Government	220,499	-	220,499
Capital Outlay	12,820	-	12,820
	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	689,341	134,031	823,372
	<hr/>	<hr/>	<hr/>
Total Receipts Over/(Under) Disbursements	(52,482)	13,681	(38,801)
Fund Cash Balances, January 1	173,438	126,203	299,641
	<hr/>	<hr/>	<hr/>
Fund Cash Balances, December 31	<u>\$ 120,956</u>	<u>\$ 139,884</u>	<u>\$ 260,840</u>

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

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 815,328
Fines, Licenses and Permits	7,192
Miscellaneous	616
	823,136
Operating Cash Disbursements:	
Personal Services	279,669
Contractual Services	62,010
Supplies and Materials	103,291
	444,970
Total Operating Cash Disbursements	444,970
Operating (Loss)	378,166
Non-Operating Cash Receipts:	
Intergovernmental	388,000
Earnings on Investments	38,614
Proceeds of Loans	2,851,289
	3,277,903
Total Non-Operating Cash Receipts	3,277,903
Non-Operating Cash Disbursements:	
Capital Outlay	3,341,280
Redemption of Principal	66,993
Interest and Other Fiscal Charges	36,338
	3,444,611
Total Non-Operating Cash Disbursements	3,444,611
Net Receipts Over Disbursements	211,458
Fund Cash Balances, January 1	695,265
Fund Cash Balances, December 31	\$ 906,723
Reserve for Encumbrances, December 31	\$ 34,357

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

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property and Local Taxes	\$ 118,767	\$ -	\$ 118,767
Municipal Income Tax	421,438	-	421,438
Intergovernmental	87,758	142,959	230,717
Fines, Licenses and Permits	23,766	-	23,766
Earnings on Investments	10,531	3,172	13,703
Miscellaneous	14,054	-	14,054
	<u>676,314</u>	<u>146,131</u>	<u>822,445</u>
Total Cash Receipts			
	<u>676,314</u>	<u>146,131</u>	<u>822,445</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	274,513	-	274,513
Public Health Services	1,660	-	1,660
Community Environment	6,071	-	6,071
Basic Utility Service	8,984	-	8,984
Transportation	126,706	102,750	229,456
General Government	187,672	-	187,672
Capital Outlay	23,636	-	23,636
	<u>629,242</u>	<u>102,750</u>	<u>731,992</u>
Total Cash Disbursements			
	<u>629,242</u>	<u>102,750</u>	<u>731,992</u>
Total Receipts Over Disbursements	47,072	43,381	90,453
Fund Cash Balances, January 1	<u>126,366</u>	<u>82,822</u>	<u>209,188</u>
Fund Cash Balances, December 31	<u>\$ 173,438</u>	<u>\$ 126,203</u>	<u>\$ 299,641</u>

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

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 716,224
Fines, Licenses and Permits	34,069
Miscellaneous	2,659
Total Operating Cash Receipts	752,952
Operating Cash Disbursements:	
Personal Services	271,284
Contractual Services	55,596
Supplies and Materials	109,450
Total Operating Cash Disbursements	436,330
Operating Income	316,622
Non-Operating Cash Receipts:	
Earnings on Investments	22,400
Proceeds of Loans	73,040
Total Non-Operating Cash Receipts	95,440
Non-Operating Cash Disbursements:	
Capital Outlay	118,970
Redemption of Principal	133,988
Interest and Other Fiscal Charges	37,639
Total Non-Operating Cash Disbursements	290,597
Net Receipts Over Disbursements	121,465
Fund Cash Balances, January 1	573,800
Fund Cash Balances, December 31	\$ 695,265

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

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Fredericktown, Knox County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. In addition to general government services, the Village provides water and sewer utilities, park operations, and police services. The Village contracts with the Fredericktown Community Fire District for fire protection services.

The Village participates in three jointly governed organizations, the Fredericktown Community Joint Emergency Ambulance District, the Fredericktown Community Fire District Fredericktown, and the Joint Recreation District. The Village has appointment authority for two related organizations, the Fredericktown Community Development Foundation and the Knox County Regional Planning Commission. The Village also participates in the Ohio Government Risk Management Plan public entity risk pool. Notes 8, 9, and 10 to the financial statements provides additional information for these entities.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds

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

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Permissive Tax Fund - This fund receives permissive tax funds from the state to be used to maintain the Village's streets.

3. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process (Continued)

3. Encumbrances

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

A summary of 2007 and 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Cash and Investments

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

	2007	2006
Demand deposits	\$142,080	\$19,175
STAR Ohio	1,025,483	975,731
Total deposits and investments	\$1,167,563	\$994,906

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

Investments: Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2007 and December 31, 2006 follows:

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$641,834	\$636,859	(\$4,975)
Special Revenue	128,500	147,712	19,212
Enterprise	4,571,960	4,101,039	(470,921)
Total	\$5,342,294	\$4,885,610	(\$456,684)

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

3. Budgetary Activity (Continued)

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$815,272	\$689,341	\$125,931
Special Revenue	254,620	134,031	120,589
Enterprise	5,204,803	3,923,938	1,280,865
Total	<u>\$6,274,695</u>	<u>\$4,747,310</u>	<u>\$1,527,385</u>

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$630,047	\$676,314	\$46,267
Special Revenue	124,672	146,131	21,459
Enterprise	3,645,000	848,392	(2,796,608)
Total	<u>\$4,399,719</u>	<u>\$1,670,837</u>	<u>(\$2,728,882)</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$756,413	\$629,242	\$127,171
Special Revenue	207,494	102,750	104,744
Enterprise	4,181,031	726,927	3,454,104
Total	<u>\$5,144,938</u>	<u>\$1,458,919</u>	<u>\$3,686,019</u>

4. Property Tax

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

5. Local Income Tax

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. Debt

Debt outstanding at December 31, 2007 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
USDA Bonds	\$754,000	4.75%
Ohio Public Works Commission Loan #CQ915	\$110,250	0.00%
Ohio Public Works Commission Loan #CT63E	30,780	0.00%
Ohio Public Works Commission Loan #CQ10G	337,269	0.00%
Ohio Public Works Commission Loan #CT51J	32,800	0.00%
Ohio Water Development Authority Loan #3969	1,464,931	0.00%
Ohio Water Development Authority Loan #4651	2,816,121	0.00%
Total	<u>\$5,546,151</u>	

The United States Department of Agriculture (USDA) Revenue Bonds and the OPWC loan #CQ915 were issued in 1998 for the water treatment plant expansion.

Revenue bonds are collateralized by fees assessed to the Village utility customers.

Ohio Water Development Authority (OWDA) loan #3969 and Ohio Public Works Commission (OPWC) loan #CT63E were awarded for the planning and construction of the Bio Solid Processing Replacement Project. The Village was awarded an additional OPWC loan CQ10G for up to \$400,000 for the construction of the Bio Solid Processing Replacement. The Village has drawn down a total amount of \$385,450 on the CQ10G loan.

In fiscal year 2006 the Village was awarded OWDA loan #4651 in the amount of \$8,373,966 and OPWC loan # CT51J in the amount of \$582,000 for Phase 2 of the Village's waste water treatment plant upgrade and expansion. As of December 31, 2007, the Village had drawn down on the loans \$2,816,121 and \$32,800 respectively. As of December 31, 2007, these loans were still open and amortization schedules will be unavailable until the Village makes its last draw on the loans.

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

6. Debt (Continued)

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

Year ending December 31:	USDA Bonds	OPWC #CQ915	OPWC # CT63E	OPWC #CQ10G	OWDA Loan #3969
2008	\$46,815	\$10,500	\$2,052	\$19,272	\$122,079
2009	47,293	10,500	2,052	19,272	81,386
2010	46,723	10,500	2,052	19,272	81,386
2011	47,153	10,500	2,052	19,272	81,386
2012	46,535	10,500	2,052	19,272	81,386
2013-2017	234,608	52,500	10,260	96,363	406,930
2018-2022	234,418	5,250	10,260	96,363	406,930
2023-2027	235,197	0	0	48,183	203,448
2028-2032	234,991	0	0	0	0
2033-2037	235,474	0	0	0	0
2038-2042	47,138	0	0	0	0
Total	<u>\$1,456,345</u>	<u>\$110,250</u>	<u>\$30,780</u>	<u>\$337,269</u>	<u>\$1,464,931</u>

7. Retirement Systems

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.50 percent of police participant wages. OPERS members contributed 9.50 and 9.00 percent of their wages for 2007 and 2006 respectively. The Village contributed an amount equal to 13.85 and 13.70 percent of participants' gross salaries for 2007 and 2006 respectively. The Village has paid all contributions required through December 31, 2007.

8. Risk Management

Risk Pool Membership

The Government belongs to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to over 550 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs.

The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

8. Risk Management (Continued)

Risk Pool Membership (Continued)

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except the Plan retains the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31:

	2007	2006
Assets	\$11,136,455	\$9,620,148
Liabilities	<u>(4,273,553)</u>	<u>(3,329,620)</u>
Members' Equity	<u>\$6,862,902</u>	<u>\$6,290,528</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

9. Jointly Governed Organizations

Fredericktown Community Joint Emergency Ambulance District

Village of Fredericktown appoints one board member (total of 6). The Ambulance District board oversees the activity and there is no financial interdependency between the Village and the Ambulance District.

Fredericktown Community Fire District

The Village of Fredericktown appoints one board member (total of 6). The Fire District board oversees the activity and there is no financial interdependency between the Village and the Fire District.

Fredericktown Joint Recreation District

The Village of Fredericktown appoints two board members (total of 7). The Recreation District oversees the park activity. There is no financial interdependency between the Village and the Recreation District.

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006
(Continued)**

10. Related Organizations

Fredericktown Community Development Foundation (the Foundation)

The Foundation has a separate 20-25 member board which consists of township and business leaders in the community. The Foundation basically acts like a Chamber of Commerce where they try to bring in new business into the community (as of late, they are in charge of the fundraising to build a new community center). The Board is not appointed by Council, however the Mayor does appoint one member from the community to be a member of the board and the village pays a membership fee of \$25 per year. The Foundation is a separate entity from the village with no financial interdependency. The village has no ability to significantly influence the Foundation's operations and has no responsibility over the fiscal matters of the Foundation.

Knox County Regional Planning Commission

The Council appoints one member of the Commission. There is no financial interdependency between the Village and the Commission

11. Custodians of Other Village Assets

The following funds are maintained by custodians, as legally required. These assets, and the related receipts and disbursements, are not reflected in the accompanying financial statements.

Deferred Compensation Assets

Certain employees may elect to participate in the Aetna Deferred Compensation Program (the Program). Amounts withheld from these employees are tax deferred, and are invested by the Program, as directed by the employees

12. Subsequent Events

On July 15, 2008 the Village issued \$155,000 in Real Estate Acquisition Bonds bearing an interest rate of 3.61%. Interest is payable July 15 of each year. The bonds mature July 15, 2010. Bond proceeds were used to purchase a house near the new school building of Fredericktown Local School District. The purpose of the purchase is to widen the intersection at which the house sits to ease traffic congestion near the school and increase maneuvering area for school busses.



Mary Taylor, CPA

Auditor of State

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

Village of Fredericktown
Knox County
2 East Sandusky Street
Fredericktown, Ohio 43019

To the Village Council:

We have audited the financial statements of the Village of Fredericktown, Knox County, Ohio, (the Village) as of and for the years ended December 31 2007 and 2006 and have issued our report thereon dated September 4, 2008, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2007-001 is also a material weakness.

We also noted a certain internal control matter that we reported to the Village's management in a separate letter dated September 4, 2008.

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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items: 2007-003 through 2007-005.

We also noted a certain noncompliance matter that we reported to the Village's management in a separate letter dated September 4, 2008.

We intend this report solely for the information and use of the finance committee, management and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 4, 2008

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 and 2006**

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

FINDING NUMBER 2007-001

Significant deficiency/Material weakness

Financial Statement Presentation

A monitoring system should be in place to prevent or detect material misstatements for the accurate presentation of the Village's financial statements.

The Clerk/Treasurer did not always accurately post receipts and disbursements to the Village's accounting system and/or financial statements. The following posting errors were noted:

- In the Enterprise funds, principal and interest payments were incorrectly posted as either transfers-out, other financing uses, or capital outlay:
 - Water Fund (\$52,588 in 2007); (\$57,313 in 2006)
 - Sewer Fund (\$50,743 in 2007); (\$114,314 in 2006)

- In the Enterprise Sewer Fund loan proceeds and the related capital outlay from Ohio Water Development Authority and Ohio Public Works Commission (OPWC) on-behalf payments were not recorded to the accounting system:
 - \$2,748,567 in 2007

- In the Enterprise Sewer Fund loan proceeds from the Ohio Water Development Authority and Ohio Public Works Commission and the related capital outlay payments were recorded as advances in and advances out respectively:
 - \$102,722 in 2007
 - \$73,040 in 2006

- In the Street Construction Fund and State Highway Fund Transportation function disbursements were posted as General Government disbursements in the Village's financial statements.
 - Street Construction (\$123,531 in 2007); (\$97,006 in 2006)
 - State Highway (\$10,500 in 2007); (\$5,744 in 2006)

- In the Enterprise Sewer Fund, intergovernmental receipts and related capital outlay resulting from on-behalf payments made by the OPWC were not recorded in the Village's accounting system:
 - \$388,000 in 2007

Not posting receipts and disbursements accurately to the accounting system resulted in the financial statements requiring numerous audit adjustments and reclassification entries; furthermore, inaccurate accounting records could make it difficult for the Village Council to effectively manage and budget for the Village's activities.

We recommend the Village's Clerk/Treasurer take steps to ensure the accurate posting of all transactions to the accounting system. Cash receipts and disbursements should be posted in accordance with procedures and posting guidelines established in the Village Officer's Handbook line item descriptions and Auditor of State Bulletins. By exercising accuracy in recording financial activity, the Village can reduce posting errors and increase the reliability of the financial data throughout the year.

VILLAGE OF FREDERICKTOWN
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 and 2006
(Continued)

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

FINDING NUMBER 2007-001 - (Continued)

Financial Statement Presentation (Continued)

We also recommend the Village's Council implement procedures over the completeness and accuracy of financial information reported within the annual financial report. Such procedures may include review of the financial statements and related components with analytical comparisons of the current year annual report to the prior year reports for obvious errors or omissions.

The Village's financial statements and accounting records, where applicable, have been adjusted to accurately reflect the proper line item classifications and fund postings.

FINDING NUMBER 2007-002

Significant deficiency

Accounting Software

The Village should maintain an accounting system and accounting records sufficient to enable the Village to identify, record, and report its transactions.

The Village's current accounting software is not designed to meet all governmental accounting needs and it reduces management's ability to effectively monitor and report all Village transactions.

The software does not allow management to view financial activity by fund.

Also the software does not allow management to compare budgeted receipts or disbursements against actual receipts and disbursements.

Furthermore, the current accounting software used by the Village does not allow the fiscal officer to post individual encumbrances against disbursement accounts which should reduce the unencumbered balance each time an encumbrance is posted to the accounting system. This information is maintained separate from the system. Thus, Village management cannot readily monitor disbursements plus encumbrances against total appropriations throughout the year.

The Village has attempted twice before and is currently attempting to implement the Auditor of State's Uniform Accounting Network (UAN), which the Auditor of State designed, developed, implemented, and operates; however, the inadequacy of the current system has hampered efforts to transition to UAN.

We recommend that Village officials and management devote the appropriate resources and time to implement accounting software that is designed for governmental accounting and allows for the posting of all budgetary transactions so that appropriate monitoring can be accomplished by management.

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2007 and 2006
(Continued)**

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

FINDING NUMBER 2007-003

Significant deficiency/Noncompliance finding

Interest Allocation

Ohio Rev. Code Section 135.21 provides for the allocation of interest among funds.

Generally, all interest earned must be credited to the general fund of the subdivision, with the following exceptions:

- Ohio Const. Article XII, Section 5a, and 1982 Op. Att’y Gen. No. 82-031 provide that interest earned on money derived from a motor vehicle license or fuel tax must follow the principal.
- Interest earned on money received from the federal government may be due to the fund to which the principal belongs.

The Village’s Street Construction, Maintenance, and Repair Fund; State Highway Improvement Fund; and Permissive Motor Vehicle License Fund receive either motor vehicle license or fuel tax receipts. These funds received interest for only the first half of fiscal year 2006 and none thereafter. As a result, audit adjustments were necessary to properly record interest in these funds for the second half of 2006 and all of 2007.

<u>Year</u>	<u>Description</u>	<u>General Fund</u>	<u>Street Construction</u>	<u>State Highway</u>	<u>Permissive License</u>
2006	Interest	\$ (3,172)	\$ 1,844	\$ 395	\$ 933
	<i>Effect on Fund Balance</i>	<u>\$ (3,172)</u>	<u>\$ 1,844</u>	<u>\$ 395</u>	<u>\$ 933</u>
2007	Interest	\$ (7,000)	\$ 4,084	\$ 652	\$ 2,264
	<i>Effect on Fund Balance</i>	<u>\$ (7,000)</u>	<u>\$ 4,084</u>	<u>\$ 652</u>	<u>\$ 2,264</u>

We recommend the Village’s Clerk/Treasurer take steps to ensure the accurate posting of all interest to the proper funds. By exercising accuracy in recording financial activity, the Village can reduce posting errors and increase the reliability of the financial data throughout the year.

The Village has posted the necessary adjustments to their accounting system and financial statements to the above noted funds.

FINDING NUMBER 2007-004

Noncompliance finding

Certification of Funds

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

VILLAGE OF FREDERICKTOWN
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 and 2006
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2007-004 (Continued)

Certification of Funds (Continued)

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

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

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

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

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

In 2007, ten percent of the transactions tested were not certified due to purchase order amounts being significantly less than warrant amounts. In 2007, 15 percent of the transactions tested did not have a date on the purchase order.

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

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

VILLAGE OF FREDERICKTOWN
KNOX COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2007 And 2006
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2007-005

Noncompliance finding

Filing of Annual Financial Report

Ohio Revised Code § 117.38 states, in part, that a public office must file an annual report with the Auditor of State Office within 60 days of the fiscal year end and publish notice in the local newspaper stating that the annual financial report is available for public inspection, at the office of the chief financial officer.

The Village did not file an annual report within 60 days of the end of the fiscal year for 2006 or 2007. The reports were filed July 5, 2007 and March 11, 2008 respectively.

We recommend that the Village file an annual report and publish notification of the availability of its annual financial reports in the local newspaper in conjunction with their submittal of these reports to the Auditor of State's office, as required, within sixty days of the fiscal year end.

Officials' Response: We did not receive a response from Officials to the above findings.

**VILLAGE OF FREDERICKTOWN
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007 AND 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	On-behalf payments not recorded in the accounting system.	No	Not Corrected – Reissued as Finding No. 2007-001
2005-002	Ohio Rev. Code Section 5705.41(D)(1).	No	Not Corrected – Reissued as Finding 2007-004



Mary Taylor, CPA
Auditor of State

VILLAGE OF FREDERICKTOWN

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 13, 2008**