



Dave Yost • Auditor of State



VILLAGE OF FREDERICKTOWN  
KNOX COUNTY

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# Dave Yost • 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.

A handwritten signature in black ink that reads "Dave Yost".

**Dave Yost**  
Auditor of State

July 20, 2012

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# Dave Yost • 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, 2011 and 2010. 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. 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(A) mandates the Auditor of State to audit Ohio governments. 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 villages 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, 2011 and 2010 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, 2011 and 2010, 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 as of December 31, 2011 and 2010 of the Village of Fredericktown, Knox County, Ohio, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2010 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2012, 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.



**Dave Yost**  
Auditor of State

July 20, 2012

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$131,570		\$131,570
Municipal Income Tax	428,448		428,448
Intergovernmental	171,598	\$125,017	296,615
Charges for Services	30		30
Fines, Licenses and Permits	26,400		26,400
Earnings on Investments	540	57	597
Miscellaneous	22,178		22,178
<i>Total Cash Receipts</i>	<u>780,764</u>	<u>125,074</u>	<u>905,838</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	334,930		334,930
Public Health Services	2,000		2,000
Leisure Time Activities	2,000		2,000
Community Environment	5,355		5,355
Basic Utility Services	7,000		7,000
Transportation	128,070	114,302	242,372
General Government	164,850		164,850
Capital Outlay	98,161		98,161
Debt Service:			
Principal Retirement	1,204		1,204
<i>Total Cash Disbursements</i>	<u>743,570</u>	<u>114,302</u>	<u>857,872</u>
<i>Excess of Cash Receipts Over Cash Disbursements</i>	<u>37,194</u>	<u>10,772</u>	<u>47,966</u>
<b>Other Financing Receipts</b>			
Bond Proceeds	110,000		110,000
<i>Net Change in Fund Cash Balances</i>	147,194	10,772	157,966
<i>Fund Cash Balances, January 1</i>	<u>113,467</u>	<u>131,269</u>	<u>244,736</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		142,041	142,041
Unassigned	260,661		260,661
<i>Fund Cash Balances, December 31</i>	<u>\$260,661</u>	<u>\$142,041</u>	<u>\$402,702</u>

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

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
<b>Operating Cash Receipts</b>	
Charges for Services	<u>\$1,142,471</u>
<b>Operating Cash Disbursements</b>	
Personal Services	258,994
Employee Fringe Benefits	108,320
Contractual Services	117,561
Supplies and Materials	<u>140,242</u>
<i>Total Operating Cash Disbursements</i>	<u>625,117</u>
<i>Operating Income</i>	<u>517,354</u>
<b>Non-Operating Receipts (Disbursements)</b>	
Loan Proceeds	44,116
Miscellaneous Receipts	50,000
Capital Outlay	(81,539)
Principal Retirement	(572,786)
Interest and Other Fiscal Charges	(34,153)
Other Financing Uses	<u>(2,159)</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(596,521)</u>
<i>Net Change in Fund Cash Balances</i>	(79,167)
<i>Fund Cash Balances, January 1</i>	<u>604,355</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$525,188</u></u>

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

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Special Revenue	Totals (Memorandum Only)
<b>Cash Receipts</b>			
Property and Other Local Taxes	\$116,447		\$116,447
Municipal Income Tax	388,731		388,731
Intergovernmental	85,364	\$128,773	214,137
Charges for Services	45		45
Fines, Licenses and Permits	25,348		25,348
Earnings on Investments	894	118	1,012
Miscellaneous	20,879		20,879
<i>Total Cash Receipts</i>	<u>637,708</u>	<u>128,891</u>	<u>766,599</u>
<b>Cash Disbursements</b>			
Current:			
Security of Persons and Property	343,585	480	344,065
Public Health Services	1,152		1,152
Leisure Time Activities	1,577		1,577
Community Environment	3,965		3,965
Basic Utility Services	6,900		6,900
Transportation	120,249	119,617	239,866
General Government	155,421		155,421
Debt Service:			
Principal Retirement	602	155,000	155,602
Interest and Fiscal Charges		4,154	4,154
<i>Total Cash Disbursements</i>	<u>633,451</u>	<u>279,251</u>	<u>912,702</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>4,257</u>	<u>(150,360)</u>	<u>(146,103)</u>
<b>Other Financing Receipts</b>			
Sale of Land		106,000	106,000
<i>Net Change in Fund Cash Balances</i>	4,257	(44,360)	(40,103)
<i>Fund Cash Balances, January 1</i>	<u>109,210</u>	<u>175,629</u>	<u>284,839</u>
<b>Fund Cash Balances, December 31</b>			
Restricted		131,269	131,269
Unassigned	113,467		113,467
<i>Fund Cash Balances, December 31</i>	<u>\$113,467</u>	<u>\$131,269</u>	<u>\$244,736</u>

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

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND BALANCES (CASH BASIS)  
PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
<b>Operating Cash Receipts</b>	
Charges for Services	<u>\$1,046,913</u>
<b>Operating Cash Disbursements</b>	
Personal Services	252,147
Employee Fringe Benefits	99,935
Contractual Services	105,709
Supplies and Materials	103,866
Other	<u>13,178</u>
<i>Total Operating Cash Disbursements</i>	<u>574,835</u>
<i>Operating Income</i>	<u>472,078</u>
<b>Non-Operating Receipts (Disbursements)</b>	
Earnings on Investments	102
Loan Proceeds	506,928
Capital Outlay	(644,406)
Principal Retirement	(541,324)
Interest and Other Fiscal Charges	<u>(34,723)</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(713,423)</u>
<i>Net Change in Fund Cash Balances</i>	(241,345)
<i>Fund Cash Balances, January 1</i>	<u>845,700</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$604,355</u></u>

*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, 2011 AND 2010**

**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 directs the Village. The Village provides water and sewer utilities, park operations, and police services. The Village contracts with the Fredericktown Community Fire District to receive fire protection services.

The Village participates in three jointly governed organizations, two related organizations, and the Ohio Plan Risk Management public entity risk pool. Notes 8, 9, and 10 to the financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organizations:

Fredericktown Community Joint Emergency Ambulance District  
Fredericktown Community Fire District  
Joint Recreation District

Related Organization:

Fredericktown Community Development Foundation  
Knox County Regional Planning Commission

Public Entity Risk Pool:

Ohio Plan Risk Management

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. Deposits 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.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**1. Summary of Significant Accounting Policies (Continued)**

**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.

**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 Fund:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village 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 object level of control and appropriations may not exceed estimated resources. The 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.

VILLAGE OF FREDERICKTOWN  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)

1. **Summary of Significant Accounting Policies (Continued)**

E. **Budgetary Process (Continued)**

2. **Estimated Resources**

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

3. **Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. **Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. **Nonspendable**

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. **Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. **Committed**

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. **Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

VILLAGE OF FREDERICKTOWN  
KNOX COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. Equity in Pooled Deposits and Investments

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

	2011	2010
Demand deposits	\$567,615	\$339,024
STAR Ohio	360,275	510,067
Total deposits and investments	<u>\$927,890</u>	<u>\$849,091</u>

**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.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**3. Budgetary Activity**

Budgetary activity for the years ended December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$830,934	\$890,764	\$59,830
Special Revenue	140,000	125,074	(14,926)
Enterprise	1,724,252	1,236,587	(487,665)
Total	\$2,695,186	\$2,252,425	(\$442,761)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$880,280	\$743,570	\$136,710
Special Revenue	267,600	114,302	153,298
Enterprise	1,845,878	1,315,754	530,124
Total	\$2,993,758	\$2,173,626	\$820,132

2010 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$622,009	\$637,708	\$15,699
Special Revenue	237,000	234,891	(2,109)
Enterprise	863,000	1,553,943	690,943
Total	\$1,722,009	\$2,426,542	\$704,533

2010 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$890,075	\$633,451	\$256,624
Special Revenue	383,864	279,251	104,613
Enterprise	1,606,182	1,795,288	(189,106)
Total	\$2,880,121	\$2,707,990	\$172,131

The excess budgetary expenditures over appropriations for Enterprise Funds in 2010 resulted from an adjustment made during the Village's audit.

Contrary to Ohio Rev. Code Section 5705.42, the Village did not initially record certain Ohio Water Development Authority on-behalf of loans as a receipt and disbursement in the Village's accounting records.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**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.

**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, 2011 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan # 4651	\$7,067,550	0.00%
Ohio Water Development Authority Loan # 3969	1,120,028	0.00%
Ohio Public Works Commission Loan # CT51J	509,250	0.00%
Ohio Public Works Commission Loan # CQ10G	260,180	0.00%
Ohio Public Works Commission Loan # CT63E	22,576	0.00%
Ohio Public Works Commission Loan # CQ915	68,250	0.00%
Ohio Public Works Commission Loan # CQ13M	22,254	0.00%
USDA Bonds	706,000	4.75%
Bond Anticipation Notes	110,000	3.50-4.50%
Total	<u>\$9,886,088</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.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**6. Debt (Continued)**

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 additional OPWC loan CQ10G for up to \$400,000 for the construction of the Bio Solid Processing Replacement.

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. The Village has drawn down an amount of \$506,928 for 2010 and \$44,115 for 2011 for OWDA loan #4651.

In fiscal year 2009, the Village was awarded OPWC loan #CQ13M in the amount of \$100,200 for the Levering Drive Intersection Improvements. As of December 31, 2011, the Village had drawn down on the loan \$24,060.

In fiscal year 2011, the Village issued \$110,000 in Bond Anticipation Notes that were used to purchase property. The Bond Anticipation Notes have a maturity of December 1, 2031. The interest rate is 3.5% for the first ten years and 4.5% for the last ten years.

The Village's taxing authority collateralized the bonds and loans.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**6. Debt (Continued)**

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

Year ending December 31:	Ohio Water Development Authority Loan # 4651	Ohio Water Development Authority Loan # 3969	Ohio Public Works Commission Loan # CT51J	Ohio Public Works Commission Loan # CQ10G
2012	\$418,700	\$80,162	\$29,100	\$19,273
2013	418,700	80,162	29,100	19,273
2014	418,700	80,162	29,100	19,273
2015	418,700	80,162	29,100	19,273
2016	418,700	80,162	29,100	19,273
2017-2021	2,093,499	400,810	145,500	96,365
2022-2026	2,093,499	318,408	145,500	67,450
2027-2031	787,052		72,750	
Total	<u>\$7,067,550</u>	<u>\$1,120,028</u>	<u>\$509,250</u>	<u>\$260,180</u>

Year ending December 31:	Ohio Public Works Commission Loan # CT63E	Ohio Public Works Commission Loan # CQ915	Ohio Public Works Commission Loan # CQ13M	USDA Bonds	Bond Anticipation Notes
2012	\$2,052	\$10,500	\$1,203	\$46,535	\$7,741
2013	2,052	10,500	1,203	46,918	7,741
2014	2,052	10,500	1,203	47,253	7,741
2015	2,052	10,500	1,203	46,540	7,741
2016	2,052	10,500	1,203	46,828	7,741
2017-2021	10,260	15,750	6,015	234,836	38,705
2022-2026	2,056		6,015	234,754	40,680
2027-2031			4,209	235,021	40,680
2032-2036				235,307	
2037-2038				94,318	
Total	<u>\$22,576</u>	<u>\$68,250</u>	<u>\$22,254</u>	<u>\$1,268,310</u>	<u>\$158,770</u>

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**7. Retirement Systems**

The Village's full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other 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 these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OP&F participants contributed 10% of their wages. For 2011 and 2010, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

**8. Risk Management**

**Risk Pool Membership**

Prior to 2009, the Village belonged 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 Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009 respectively. The Village participates in this coverage.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**8. Risk Management (Continued)**

The Plan formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009 respectively. The Village does not participate in this coverage.

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: 2010 and 2009 (the latest information available), and include amounts for both OPRM and OPHC:

	2010		2009	
	OPRM	OPHC	OPRM	OPHC
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members’ Equity	<u>\$7,191,485</u>	<u>\$300,035</u>	<u>\$6,323,701</u>	<u>\$105,185</u>

You can read the complete audited financial statements for OPRM and OPHC at the Plan’s website, [www.ohioplan.org](http://www.ohioplan.org).

**9. Jointly Governed Organizations**

**Fredericktown Community Joint Emergency Ambulance District**

The Village of Fredericktown appoints one of the six board members. 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 of the six board members. The Fire District board oversees the activity and there are no financial interdependency between the Village and the Fire District.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2011 AND 2010  
(Continued)**

**9. Jointly Governed Organizations (Continued)**

**Fredericktown Joint Recreation District**

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

**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. 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.

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# Dave Yost • 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, 2011 and 2010, and have issued our report thereon dated July 20, 2012, wherein we noted the Village followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America and the Village adopted Governmental Accounting Standards Board Statement 54. We also noted 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(A) mandates the Auditor of State to audit Ohio governments. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected. We consider findings 2011-001 and 2011-002 described in the accompanying schedule of findings to be material weaknesses.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated July 20, 2012.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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



**Dave Yost**  
Auditor of State

July 20, 2012

VILLAGE OF FREDERICKTOWN  
KNOX COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2011 AND 2010

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

FINDING NUMBER 2011-001

**Material Weakness/Noncompliance Finding - On-Behalf Grants**

**Ohio Rev. Code Section 5705.42** requires in part, when the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of this state to aid in paying the cost of any program, activity, or function of such subdivision, the amount is deemed appropriated and shall be recorded by the subdivision.

In 2011 and 2010, the Village received \$44,115 and \$506,928, respectively, of Ohio Water Development Authority (OWDA) moneys for a wastewater project. Under the terms of this agreement, OWDA makes some project payments directly to the vendor/contractor(s) on the Village's behalf. Of the \$44,115 and \$506,928 of OWDA moneys in 2011 and 2010, the Village did not recognize the \$506,928 from 2010 as receipts and disbursements in their general ledger, thus understating their receipts and disbursements. An adjustment was made to the financial statements to recognize these receipts and disbursements.

Any payments made on behalf of the Village by another party should be recorded by the Village as a receipt and disbursement. Failure to do so results in an understatement of receipts and disbursements. The Village should refer to Auditor of State Bulletin 2002-004 for additional guidance.

**Officials' Response:** Future postings will be reviewed and double checked for accuracy.

FINDING NUMBER 2011-002

**Material Weakness - Transaction Postings**

Our receipt and disbursement testing revealed the Village recorded several transactions incorrectly. Mispostings identified included, but were not limited, to the following:

- In 2011 and 2010, a Local Government receipt was incorrectly posted to the Street Construction and State Highway Funds and a Motor Vehicle License receipt was incorrectly posted to the General Fund. In addition, in 2011 a Motor Vehicle License receipt and in 2011 and 2010 a Gas Tax receipt were not properly allocated between the Street Construction and State Highway Funds. These errors resulted in an understatement of General Fund Intergovernmental revenues and Cash Fund Balance of \$1,356 for 2011 and \$1,371 for 2010, an understatement of Intergovernmental revenues and Cash Fund Balance in the Street Construction Fund by \$3,537 in 2011 and \$3,577 in 2010, and overstatement of Intergovernmental revenues and Cash Fund Balance in the State Highway Fund by \$4,893 in 2011 and \$4,948 in 2010. These amounts were adjusted to the financial statements and Village's accounting records.
- In 2011 and 2010, \$12,105 and \$11,704, respectively, of Permissive License receipts, and in 2011 a \$1,778 Justice Assistance Grant were incorrectly posted to the General Fund's Miscellaneous revenue rather than Intergovernmental revenue. These amounts were adjusted to the financial statements.
- In 2011 and 2010, \$3,666 and \$850, respectively, of Permissive Sales Tax receipts were incorrectly allocated to the Street Construction and State Highway Funds rather than the Permissive Motor Vehicle License Tax Fund. These amounts were adjusted to the financial statements and Village's accounting records.

**FINDING NUMBER 2011-002 (continued)**

- In 2010, a \$106,000 receipt for the sale of land was incorrectly posted to the Street Construction Fund's Special Assessment receipts instead of Other Financing Sources Sale of Land. This amount was adjusted to the financial statements.
- In 2011 and 2010, \$17,659 and \$15,247, respectively, of Miscellaneous receipts were incorrectly posted to the General Fund's Special and Extraordinary Items line item. These amounts were adjusted to the financial statements.
- In 2011, \$98,161 of debt proceeds and related capital outlay disbursements were not recorded in the General Fund on the Village's books. A \$110,000 loan was obtained, but only the net amount of what was received and what was spent was posted to the Villages books, resulting in only \$11,839 being posted. This amount was adjusted to the financial statements.
- In 2011, \$94,116 of OWDA Loan Proceeds and Miscellaneous receipts were incorrectly posted to the Sewer Fund's Other Financing Sources receipt line item. Further, the related OWDA loan disbursements were incorrectly posted to the Sewer Fund's Transfers Out disbursement line item rather than Capital Outlay disbursements. Finally, in 2010, \$93,072 of Capital Outlay disbursements were incorrectly posted to the PAE Enterprise Service Fund's Other Financing Uses. These amounts were adjusted to the financial statements.
- In 2011 and 2010, \$424 and \$24,186, respectively, of wastewater related principal disbursements were incorrectly posted to the Water Fund Capital Outlay disbursement line item rather than the Sewer Fund debt service principal disbursement line item. In addition, in 2010 it was noted \$46,723 of water related principal and interest disbursements were incorrectly transferred from the Sewer Fund to the Enterprise Improvement Fund to make the payment rather than posted to the Water Fund debt service principal and interest line items. Finally, in 2011 and 2010, \$397,165 and \$664,894, respectively, of debt service disbursements were incorrectly posted to the capital outlay, transfers out, transportation, or other financing sources disbursement line items rather than the debt service principal and interest disbursement line items. These amounts were adjusted to the financial statements and Village's accounting records.

The Village should exercise due care when posting transactions to help ensure receipts and disbursements are posted to the correct fund and account. This will help more accurately reflect the Village's financial activity and will aid in more accurate financial reporting.

**Officials' Response:** Transactions will be reviewed and monitored more closely to ensure the receipts and disbursements are recorded correctly.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b>
2009-001	ORC 5705.41(D) – The Village did not certify all disbursements as required.	No	Repeated in Management Letter.
2009-002	ORC 5705.10 – Various receipts and disbursements were posted to the incorrect funds.	No	See Finding 2011-002.
2009-003	Financial Statement Presentation – Various receipts and disbursements were posted to the incorrect accounts within the fund.	No	See Finding 2011-002.

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# Dave Yost • 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  
AUGUST 21, 2012