



**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2004-2005**



**Auditor of State  
Betty Montgomery**



VILLAGE OF FREDERICKTOWN  
KNOX COUNTY

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**Auditor of State  
Betty Montgomery**

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 a February 2, 2005 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 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 cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

September 26, 2006

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**Auditor of State  
Betty Montgomery**

**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, 2005 and 2004. 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.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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 the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, 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, 2005 and 2004 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, 2005 and 2004, or its changes in financial position or cash flows of its proprietary fund 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 of the Village of Fredericktown, Knox County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. 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 26, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Betty Montgomery**  
Auditor of State

September 26, 2006



**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, 2005**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$510,671	\$0	\$510,671
Intergovernmental Receipts	71,753	137,452	209,205
Fines, Licenses, and Permits	16,826	0	16,826
Earnings on Investments	6,713	0	6,713
Miscellaneous	13,687	0	13,687
	<u>619,650</u>	<u>137,452</u>	<u>757,102</u>
<b>Total Cash Receipts</b>			
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	255,098	0	255,098
Public Health Services	1,729	0	1,729
Community Environment	2,288	0	2,288
Basic Utility Services	6,668	0	6,668
Transportation	173,478	0	173,478
General Government	158,988	139,746	298,734
Capital Outlay	37,019	0	37,019
	<u>635,268</u>	<u>139,746</u>	<u>775,014</u>
<b>Total Cash Disbursements</b>			
<b>Total Receipts (Under) Disbursements</b>	<u>(15,618)</u>	<u>(2,294)</u>	<u>(17,912)</u>
<b>Fund Cash Balances, January 1</b>	<u>141,984</u>	<u>85,116</u>	<u>227,100</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$126,366</b></u>	<u><b>\$82,822</b></u>	<u><b>\$209,188</b></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 CASH BALANCES - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$706,576
Miscellaneous	406
	706,982
Total Operating Cash Receipts	706,982
<b>Operating Cash Disbursements:</b>	
Personal Services	254,207
Contractual Services	56,246
Supplies and Materials	95,641
Capital Outlay	291,823
	697,917
Total Operating Cash Disbursements	697,917
Operating Income	9,065
<b>Non-Operating Cash Receipts:</b>	
Proceeds of Loans	267,054
Earnings on Investment	7,727
Other Miscellaneous Non-Operating Cash Receipts	8,020
	282,801
Total Non-Operating Cash Receipts	282,801
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	
Principal Payment	101,454
Interest Payment	39,508
	140,962
Total Non-Operating Cash Disbursements	140,962
Net Receipts Over Disbursements	150,904
Fund Cash Balances, January 1	422,896
<b>Fund Cash Balances, December 31</b>	<b>\$573,800</b>

*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, 2004**

	<u>Governmental Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	
<b>Cash Receipts:</b>			
Property Tax and Other Local Taxes	\$484,045	\$0	\$484,045
Intergovernmental Receipts	155,600	125,624	281,224
Fines, Licenses, and Permits	6,630	0	6,630
Earnings on Investments	3,681	0	3,681
Miscellaneous	22,757	0	22,757
	<u>672,713</u>	<u>125,624</u>	<u>798,337</u>
<b>Total Cash Receipts</b>			
<b>Cash Disbursements:</b>			
Current:			
Security of Persons and Property	252,322	0	252,322
Public Health Services	1,763	0	1,763
Community Environment	2,313	0	2,313
Basic Utility Services	6,683	0	6,683
Transportation	178,626	0	178,626
General Government	177,015	102,401	279,416
Capital Outlay	13,513	0	13,513
	<u>632,235</u>	<u>102,401</u>	<u>734,636</u>
<b>Total Cash Disbursements</b>			
Total Receipts Over Disbursements	<u>40,478</u>	<u>23,223</u>	<u>63,701</u>
<b>Other Financing Receipts and (Disbursements):</b>			
Transfers-In	0	1,500	1,500
Transfers-Out	(1,500)	0	(1,500)
	<u>(1,500)</u>	<u>1,500</u>	<u>0</u>
<b>Total Other Financing Receipts/(Disbursements)</b>			
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	38,978	24,723	63,701
Fund Cash Balances, January 1	<u>103,006</u>	<u>60,393</u>	<u>163,399</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$141,984</u></b>	<b><u>\$85,116</u></b>	<b><u>\$227,100</u></b>

*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 CASH BALANCES - PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<b>Proprietary Fund Type</b>
	<b>Enterprise</b>
<b>Operating Cash Receipts:</b>	
Charges for Services	\$665,201
Miscellaneous	555
	665,756
<b>Operating Cash Disbursements:</b>	
Personal Services	211,909
Contractual Services	50,372
Supplies and Materials	145,272
Capital Outlay	1,852,975
	2,260,528
Operating (Loss)	(1,594,772)
<b>Non-Operating Cash Receipts:</b>	
Proceeds of Loans	1,644,085
Intergovernmental Receipts	200,000
Earnings on Investments	3,606
Other Miscellaneous Non Operating Cash Receipts	3,350
	1,851,041
<b>Non-Operating Cash Disbursements:</b>	
Debt Service	
Principal Payments	60,564
Interest Payments	42,648
	103,212
Net Receipts Over Disbursements	153,057
Fund Cash Balances, January 1	269,839
<b>Fund Cash Balances, December 31</b>	<b>\$422,896</b>

*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, 2005 AND 2004**

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

**B. Basis of Accounting**

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. This basis 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 adequately disclose material matters the Auditor of State prescribes.

**C. Cash and Investments**

The Village values certificates of deposit at cost.

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.

**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, 2005 AND 2004  
(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 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 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, 2005 AND 2004  
(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 canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio Law.

A summary of 2005 and 2004 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:

	2005	2004
Demand deposits	\$682,988	\$649,996
Certificates of deposit	100,000	0
Total deposits	\$782,988	\$649,996

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

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005, and December 31, 2004 follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$635,277	\$619,650	(\$15,627)
Special Revenue	35,500	137,452	101,952
Enterprise	682,400	989,783	307,383
Total	\$1,353,177	\$1,746,885	\$393,708

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. BUDGETARY ACTIVITY (Continued)**

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$777,260	\$635,268	\$141,992
Special Revenue	217,614	139,746	77,868
Enterprise	4,955,295	838,879	4,116,416
Total	\$5,950,169	\$1,613,893	\$4,336,276

2004 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$625,165	\$672,713	\$47,548
Special Revenue	107,000	127,124	20,124
Enterprise	4,765,900	2,516,797	(2,249,103)
Total	\$5,498,065	\$3,316,634	(\$2,181,431)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$728,271	\$633,735	\$94,536
Special Revenue	167,393	102,401	64,992
Enterprise	5,166,239	2,363,740	2,802,499
Total	\$6,061,903	\$3,099,876	\$2,962,027

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

Property owners assess tangible personal property tax. They must file a list of tangible 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 the Village's behalf.



**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(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, 2005 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan #2041	\$10,824	7.62%
USDA Bonds	\$775,000	4.75%
Ohio Public Works Commission Loan #CQ915	\$126,000	0.00%
Ohio Public Works Commission Loan #CT63E	33,864	0.00%
Ohio Public Works Commission Loan #CQ10G	366,178	0.00%
Ohio Water Development Authority Loan #3969	1,511,101	0.00%
Total	<u>\$2,822,967</u>	

Ohio Water Development Authority (OWDA) loan #2041 relates to a water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency.

OWDA loan #3969 and 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.

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, 2005 AND 2004  
(Continued)**

**6. DEBT (Continued)**

Amortization of the above debt, including interest, follows:

2010	0	46,723	10,500	2,052	19,272	38,746
2011-2015		234,348	52,500	10,125	96,360	193,730
2016-2020		235,063	21,000	10,125	96,360	193,730
2021-2025		234,025		3,354	77,098	193,730
2026-2030		235,765				193,730
2031-2035		234,810				193,730
2036-2040		141,496				193,730
2041-2045						154,990
Total	<u>\$10,892</u>	<u>\$1,550,489</u>	<u>\$126,000</u>	<u>\$33,864</u>	<u>\$366,178</u>	<u>\$1,511,100</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 2005 and 2004, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**8. RISK MANAGEMENT**

**Risk Pool Membership**

The Village belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 460 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.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays 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.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**8. RISK MANAGEMENT (Continued)**

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

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 obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2005 and 2004:

	<b>2005</b>	<b>2004</b>
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**9. 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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**Auditor of State  
Betty Montgomery**

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

Village of 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, 2005 and 2004, and have issued our report thereon dated September 26, 2006 wherein we noted the Village followed accounting practices the Auditor of State prescribes 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 to determine our auditing procedures to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Village's management dated September 26, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

### **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* that has been reported in the accompanying schedule of findings as finding number 2005-002.

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



**Betty Montgomery**  
Auditor of State

September 26, 2006

VILLAGE OF FREDERICKTOWN  
KNOX COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004

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

FINDING NUMBER 2005-001

**On-Behalf of Grants**

Auditor of State Bulletin 2005-008 describes the required cash basis accounting procedures for on-behalf grants/loans for improvement projects. On-behalf payments by another government should be recorded on the benefiting governments accounting records as a memorandum of receipt and expenditure in the year the payments are made.

Although a separate line-item account was established within the Sewer Fund to account for the Ohio Water Development Authority (OWDA) and the Ohio Public Works Commission (OPWC) projects, the total of on-behalf payments that were paid directly to vendor's for these projects from the State were not always included as either a revenue or expenditures in the Village's accounting records.

Even though the Village does not directly receive the funds for these projects, the Village has benefited from the transactions associated with the project, and the activity should be reflected on the Village's financial statements as a receipt and corresponding expenditure.

The following OWDA and the OPWC project funds were sent directly to the project vendor by the State and were omitted from the Village's accounting records and financial statements during the audit period.

	2005	2004
Ohio Water Development Authority	\$37,646	\$1,107,361
Ohio Public Works Commission	\$36,713	\$548,737

The Fiscal Officer should issue a memo journal entry in the accounting records each time a payment is made on behalf of the Village. The journal entry should reflect both the receipt and corresponding expenditure.

The above amounts were recorded as audit adjustments and are reflected in the Villages financial statements.

**OFFICIAL'S RESPONSE:**

We have received a copy of the Auditor of State Bulletin 2000-008 which describes how to properly account for monies received on behalf of entities, and will try to properly account for these projects in the future.

VILLAGE OF FREDERICKTOWN  
KNOX COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)

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

FINDING NUMBER 2005-002 (Continued)

**Prior Certification**

**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.

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 Council can authorize the drawing of a warrant for the payment of the amount due. The Village Council 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 Council.

**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 Council 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.

The Village Fiscal Officer did not properly certify the availability of funds prior to the purchase commitment for 31% and 32% of the expenditures tested for 2005 and 2004 respectively and there was no evidence that the Village Council followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.



VILLAGE OF FREDERICKTOWN  
KNOX COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004  
(Continued)

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

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

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

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

**OFFICIAL'S RESPONSE:**

Steps have been taken to try to monitor this situation, and to improve in this area in the future.

**VILLAGE OF FREDERICKTOWN  
KNOX COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 AND DECEMBER 31, 2004**

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>
2003-001	Accounting software not suitable for governmental accounting	Corrected	During 2006, the Village began using the State of Ohio's Uniform Accounting Network accounting system.



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**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 21, 2006**