

***VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO***

AUDIT REPORT

For the Years Ended December 31, 2006 and 2005

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA

Auditor of State

Village Council
Village of Freeport
P.O. Box 176
Freeport, OH 43973

We have reviewed the *Report of Independent Accountants* of the Village of Freeport, Harrison County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2005 to December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Freeport is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 28, 2007

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VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO
Audit Report
For the years ended December 31, 2006 and 2005

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REPORT OF INDEPENDENT ACCOUNTANTS

Village of Freeport
Harrison County
306 Piedmont Rd.
Freeport, Ohio 43973

To Village Council:

We have audited the accompanying financial statements of the Village of Freeport, Harrison County, Ohio (the Village), as of and for the years ended December 31, 2006 and 2005. 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 that 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, 2006 and 2005. Instead of the combined funds the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements and also to present it's larger (i.e. major) funds separately for 2006 and 2005. 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 the 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, 2006 and 2005, 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, 2006 and 2005, or its changes in financial position or cash flows 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 Freeport, Harrison County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements and changes in fund cash balances 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, 2006 and 2005. 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 August 24, 2007, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
August 24, 2007

**VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2006**

	<u>Governmental Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Receipts:			
Property and Other Local Taxes	\$ 52,601	\$ 7,969	\$ 60,570
Municipal Income Tax	63,075	-	63,075
Intergovernmental Receipts	2,331	18,262	20,593
Earnings on Investments	73	216	289
Miscellaneous	1,363	-	1,363
Total Receipts	<u>119,443</u>	<u>26,447</u>	<u>145,890</u>
Disbursements:			
Current:			
Security of Persons & Property	11,158	7,441	18,599
Basic Utility Services	1,480	-	1,480
Transportation	44,372	11,041	55,413
General Government	90,724	324	91,048
Total Cash Disbursements	<u>147,734</u>	<u>18,806</u>	<u>166,540</u>
Excess of Receipts Over/(Under) Disbursements	(28,291)	7,641	(20,650)
Fund Balance January 1, 2006	<u>246,156</u>	<u>33,065</u>	<u>279,221</u>
Fund Balance December 31, 2006	<u><u>\$ 217,865</u></u>	<u><u>\$ 40,706</u></u>	<u><u>\$ 258,571</u></u>

See accompanying Notes to the Financial Statements.

VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
For the Year Ended December 31, 2006

	Proprietary Fund Type
	Enterprise
Operating Receipts:	
Charges for Services	\$ 40,295
Total Operating Receipts	40,295
Operating Disbursements:	
Personal Services	11,537
Contractual Services	4,733
Supplies and Materials	8,191
Total Operating Disbursements	24,461
Excess Operating Receipts Over/(Under) Operating Disbursements	15,834
Non-Operating Disbursements:	
Debt Service	
Retirement of Principal	(7,680)
Interest and Fiscal Charges	(3,238)
Total Non-Operating Disbursements	(10,918)
Excess of Receipts Over/(Under) Disbursements	4,916
Fund Balance January 1, 2006	9,684
Fund Balance December 31, 2006	\$ 14,600

See accompanying Notes to the Financial Statements.

**VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
For the Year Ended December 31, 2005**

	<u>Governmental Fund Types</u>		<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Receipts:			
Property and Other Local Taxes	\$ 43,701	\$ 8,508	\$ 52,209
Municipal Income Tax	58,188	-	58,188
Intergovernmental Receipts	3,154	16,531	19,685
Earnings on Investments	73	219	292
Miscellaneous	2,229	-	2,229
Total Receipts	<u>107,345</u>	<u>25,258</u>	<u>132,603</u>
Disbursements:			
Current:			
Security of Persons & Property	5,007	2,696	7,703
Public Health Services	60	-	60
Leisure Time Activities	-	47	47
Basic Utility Services	180	-	180
Transportation	15,663	23,406	39,069
General Government	77,662	1,494	79,156
Total Cash Disbursements	<u>98,572</u>	<u>27,643</u>	<u>126,215</u>
Excess of Receipts Over/(Under) Disbursements	8,773	(2,385)	6,388
Fund Balance January 1, 2005	<u>237,383</u>	<u>35,450</u>	<u>272,833</u>
Fund Balance December 31, 2005	<u>\$ 246,156</u>	<u>\$ 33,065</u>	<u>\$ 279,221</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
For the Year Ended December 31, 2005

	Proprietary Fund Type
	Enterprise
Operating Receipts:	
Charges for Services	\$ 40,730
Total Operating Receipts	40,730
Operating Disbursements:	
Personal Services	14,912
Contractual Services	4,154
Supplies and Materials	4,814
Total Operating Disbursements	23,880
Excess Operating Receipts Over/(Under) Operating Disbursements	16,850
Non-Operating Disbursements:	
Debt Service	
Retirement of Principal	(7,272)
Interest and Fiscal Charges	(3,676)
Total Non-Operating Disbursements	(10,948)
Excess of Receipts Over/(Under) Disbursements	5,902
Fund Balance January 1, 2005	3,782
Fund Balance December 31, 2005	\$ 9,684

See accompanying Notes to the Financial Statements.

**VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Freeport is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village operates under a council/mayor form of government. Elected officials include council members and a mayor. The Village provides general government services, including maintenance of Village streets, police, sewer, water, utilities, and park operations.

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 basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed by the Auditor of State.

C. CASH AND INVESTMENTS

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit and repurchase agreements are valued at cost.

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 is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

**VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO**
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - (continued)

D. **FUND ACCOUNTING** - (continued)

2. **Special Revenue Funds**

To account for the proceeds of specific revenue sources (other than from trusts or for capital projects) that are restricted to expenditures for specific purposes. The Village had the following significant special revenue funds:

Street Construction, Maintenance and Repair Fund – This fund receives gasoline tax monies from the State of Ohio for construction and repair of Village streets.

State Highway Improvement Fund – This fund receives gasoline tax monies from the State of Ohio for maintenance and repair of state highways in the Village.

Permissive Motor Vehicle License Tax Fund- This fund receives motor vehicle license tax money to construct, maintain and repair Village roads.

3. **Enterprise Fund**

This fund accounts for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Fund:

Water Fund – This fund receives charges for services from residents to cover the cost of providing this utility.

E. **BUDGETARY PROCESS**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. **Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund and departmental level of control and appropriations may not exceed estimated resources. The 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 as of January 1. The County Budget Commission must also approve estimated resources.

**VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO**
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

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.

A summary of 2005 and 2006 budgetary activity appears in Note 3.

F. **PROPERTY, PLANT AND EQUIPMENT**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. **ACCUMULATED LEAVE**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. **EQUITY IN POOLED CASH AND CASH EQUIVALENTS**

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

	2005	2006
Demand Deposits	\$288,905	\$273,171

Deposits: Deposits are either (1) insured by the Federal Depository Insurance Corporation; (2) collateralized by securities specifically pledged by the financial institution to the Village or (3) collateralized by the financial institution's public entity deposit pool.

**VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO**
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

3. **BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2006 is as follows:

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 74,422	\$ 107,345	\$ 32,923
Special Revenue	14,201	25,258	11,057
Enterprise	50,000	40,730	(9,270)
Total	\$ 138,623	\$ 173,333	\$ 34,710

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 205,666	\$ 98,572	\$ 107,094
Special Revenue	74,628	27,643	46,985
Enterprise	56,214	34,828	21,386
Total	\$ 336,508	\$ 161,043	\$ 175,465

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 74,601	\$ 119,443	\$ 44,842
Special Revenue	41,177	26,447	(14,730)
Enterprise	50,000	40,295	(9,705)
Total	\$ 165,778	\$ 186,185	\$ 20,407

**VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO**
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

3. **BUDGETARY ACTIVITY** - (continued)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 210,666	\$ 147,734	\$ 62,932
Special Revenue	119,904	18,806	101,098
Enterprise	56,214	35,379	20,835
Total	\$ 386,784	\$ 201,919	\$ 184,865

4. **PROPERTY TAXES**

Real property becomes a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as intergovernmental receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

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

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

5. **DEBT**

Debt outstanding at December 31, 2006 is as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loans	\$ 42,293	6.04%
Total	\$ 42,293	

The Ohio Water Development Authority Loans were used for a water tank project. The loan will be repaid in semi-annual installments and is collateralized by future water revenue from Village customers.

**VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO**
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

5. **DEBT** – (continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2006 are as follows:

<u>For The Year Ending 12/31</u>	<u>OWDA Loans</u>
2007	\$ 10,919
2008	10,919
2009	10,919
2010	10,919
2011	<u>10,919</u>
Total	<u>\$ 54,595</u>

6. **LOCAL INCOME TAX**

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency or business activities within the Village corporate limits as well as certain income of residents earned outside the Village corporate limits.

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

7. **RETIREMENT SYSTEM**

The Ohio Public Employees Retirement System (OPERS) is a cost sharing, multiple employer defined benefit pension plan administered by the Ohio Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 1454 of the Ohio Revised Code. OPERS issues a stand-alone financial report.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contributions rates are 8.5% for year 2005 and 9.0% for year 2006 of their gross salaries. For local government employer units, the rate was 13.55% of covered payroll for 2005 and 13.70% of covered payroll for 2006. The contribution rates are determined actuarially. The Village has paid all contributions required through December 31, 2006.

**VILLAGE OF FREEPORT
HARRISON COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005**

8. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles
- Errors and omissions; and
- Public Officials liability.

Settled claims have not exceeded this commercial coverage in any of the last three years. There have been no significant reductions in insurance coverage from last year.

The Village pays the State Worker's Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

9. LEGAL COMPLIANCE

The Village did not properly certify the availability of funds for 100% of its non-payroll expenditures contrary to Section 5705.41 (D) of the Ohio Revised Code.

The Village had appropriations exceeding estimated resources in several funds contrary to Section 5705.39 of the Ohio Revised Code.

The Village had expenditures exceeding appropriations contrary to Section 5705.41(B) of the Ohio Revised Code.

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

Village of Freeport
Harrison County
102 E. Sixth Street
Freeport, Ohio 43430

To Village Council:

We have audited the financial statements of the Village of Freeport, Harrison County, Ohio (the Village) as of and for the year ended December 31, 2006 and 2005, and have issued our report thereon dated August 24, 2007, wherein we noted the Village prepared its financial statements using 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion 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 to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect 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 accounting practices the Auditor of State prescribes such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control. We consider the deficiencies described in the accompanying schedule of findings, items 2006-Freeport-001 and 2006-Freeport-004 and 005 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

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 considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2006-Freeport-001 through 2006-Freeport-005.

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 noted certain matters that we have reported to management of the Village in a separate letter dated August 24, 2007.

This report is intended solely for the information and use of the management and Village Council and is not intended to be and should not be used by anyone other than these specified parties.

Charles E. Harris & Associates, Inc.
August 24, 2007

**VILLAGE OF FREEPORT
HARRISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

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

Finding Number: 2006-Freeport-001

Material Non-Compliance Citation and Material Weakness

Ohio Revised Code Noncompliance:

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

The following exceptions to this basic requirement are provided by statute:

1. **Then and Now Certificates** – If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, Village Council may affirm or authorize the issuance of a warrant in payment due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid. Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of “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 taxing authority.
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 profession 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 did not properly certify or record the amount against applicable appropriations accounts for 100% of tested expenditures in 2006 and 2005. The Village did not utilize the certification exceptions described above for those expenditures lacking prior certification.

**VILLAGE OF FREEPORT
HARRISON COUNTY
SCHEDULE OF FINDINGS- (continued)
DECEMBER 31, 2006 AND 2005**

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

Finding Number: 2006-Freeport-001- (continued)

In the future, the Village should make an effort to ensure that all disbursements of Village funds are accompanied by a purchase order dated before the invoice date in order to be in compliance with ORC 5705.41 (B) and (D).

Management Response:

The Village will implement purchase orders in the future.

Finding Number: 2006-Freeport-002

Material Non-Compliance

Appropriations Exceed Estimated Resources

Section 5705.39, Revised Code, states that appropriations from each fund shall not exceed the total estimated resources as certified for expenditure by the county budget commission. The following funds were found to have appropriations in excess of the amount available for expenditure:

2005			
<u>Fund</u>	<u>Estimated Resouces</u>	<u>Total Appropriations</u>	<u>Variance</u>
SCM&R	\$ 12,306	\$ 31,985	\$ (19,679)
State Highway Imp.	6,419	40,000	(33,581)
Water	52,582	56,214	(3,632)
2006			
<u>Fund</u>	<u>Estimated Resouces</u>	<u>Total Appropriations</u>	<u>Variance</u>
State Highway Imp.	\$ 7,612	\$ 41,045	\$ (33,433)
MVL Permissive Tax	14,315	44,171	(29,856)

We recommend the Village management regularly compare budgetary information to avoid over appropriating balances.

Management Response:

The Village will attempt to monitor its budgetary compliance more closely.

**VILLAGE OF FREEPORT
HARRISON COUNTY
SCHEDULE OF FINDINGS- (continued)
DECEMBER 31, 2006 AND 2005**

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

Finding Number: 2006-Freeport-003

Material Non-Compliance

Expenditures Exceed Appropriations

Section 5705.41 (B), Revised Code, prohibits the Village from making expenditure unless it has been properly appropriated. The following fund was found to have expenditures in excess of appropriations:

	2005		
Fund	Total Appropriations	Total Expenditures	Variance
MVL Permissive	\$ -	\$ 7,125	\$ (7,125)

	2006		
Fund	Total Appropriations	Total Expenditures	Variance
Fire Fund	\$ 1,755	\$ 3,999	\$ (2,244)

In addition, Auditor of State Bulletin 97-010 requires budgetary compliance be tested at the legal level of control. The Village's legal level of control is the department level. At December 31, 2005 and 2006 the following General Fund departments had expenditures exceeding appropriations:

	2005		
General Fund Function/Department	Total Appropriations	Total Expenditures	Variance
Transportation			
Street Repair	\$ 13,000	\$ 15,663	\$ (2,663)
General Government			
Solicitor	-	2,700	(2,700)
Lands & Buildings	6,000	6,721	(721)
Audit Fees	2,000	6,921	(4,921)

**VILLAGE OF FREEPORT
HARRISON COUNTY
SCHEDULE OF FINDINGS- (continued)
DECEMBER 31, 2006 AND 2005**

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

Finding Number: 2006-Freeport-003-(continued)

<u>General Fund Function/Department</u>	<u>2006 Total Appropriations</u>	<u>Total Expenditures</u>	<u>Variance</u>
Transportation			
Street Repair	\$ 13,000	\$ 31,507	\$ (18,507)
General Government			
Lands & Buildings	6,000	6,432	(432)
County Auditor Fees	2,000	2,028	(28)
Income Tax Admin.			
Personal Services	3,900	7,319	(3,419)
Supplies & Materials	100	718	(618)
Capital Outlay	20,000	51,921	(31,921)

We recommend the village closely monitor expenditures versus appropriations and take necessary actions if additional appropriations are needed.

Management Response:

The Village will attempt to monitor its budgetary compliance more closely.

Finding Number: 2006-Freeport-004 – Material Weakness

Proper Posting of Receipts and Disbursements

Ohio Administrative Code Section 117-2-02(A) states that all public offices maintain accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements required by the Ohio Administrative Code section 117-2-03. The Village did not correctly code and classify receipts and expenditures in a manner consistent with this section. These amount were reclassified in the financial statements to reflect the proper presentation.

Failure to adopt and consistently follow a uniform chart of accounts increases the possibility that the Village will not be able to identify, assemble, analyze, classify, record and report its transactions correctly or to document compliance with finance-related legal and contractual requirements. The fiscal officer should review the chart of accounts suggested in Ohio Administrative Code. All transactions should be properly coded and classified accounting to the adopted chart of accounts to help ensure financial activity of the Village is accurately reported.

Management Response:

Management will strive to improve its accuracy in the posting of its financial information.

**VILLAGE OF FREEPORT
HARRISON COUNTY
SCHEDULE OF FINDINGS- (continued)
DECEMBER 31, 2006 AND 2005**

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

Finding Number: 2006-Freeport-005 – Material Weakness

Posting Budgetary Information

Ohio Administrative Code Section 117-2-02(1) states, “All local offices should integrate the budgetary accounts, at the legal level of control or lower, into the financial accounting system. This means designing an accounting system to provide ongoing and timely information on realized budgetary receipts and remaining uncommitted balances of appropriations.”

The Village Clerk/Treasurer did not accurately post the amounts of appropriations as approved by Council or the amounts of estimated resources as certified by the budget commission to the ledgers.

As the appropriation resolution and subsequent amendments establish the legal spending authority of the Village and the appropriation ledger provides the process by which the Village controls spending, it is necessary that the amounts appropriated by the Village Council are precisely stated and accurately posted to the appropriation ledger.

As the original certificate and amendments establish the amounts available for expenditures in the Village and the receipt ledger provides the process by which the Village controls what is available, it is necessary that the amounts estimated by the County Budget Commission are posted accurately to the receipts ledger.

Failure to accurately post the appropriations and estimated resources to the ledger could result in overspending and negative cash balances. To effectively control the budgetary cycle and to maintain accountability over Village expenditures and revenues, the Village Clerk/Treasurer should post to the ledgers, on a timely basis, appropriation amounts as passed by Council and estimated resources as certifies by the budget commission. Council should also monitor budget versus actual reports to ensure supplemental and amended appropriation and amended certificates of resources have been properly posted.

Management Response:

The Village will strive to improve its recording of financial information.

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: Per ADAM 2001-10-disclose the current year finding in this schedule
2004-001	ORC Section 5705.41 (D)- Failure to certify funds	No	Not Corrected See Finding 2006-Freeport-001
2004-002	ORC Section 5705.39 - Appropriations Exceed Estimated Resources	No	Not Corrected See Finding 2006-Freeport-002
2004-003	ORC Section 5705.41(B) - Expenditures Exceed Appropriations	No	Not Corrected See Finding 2006-Freeport-003



Mary Taylor, CPA
Auditor of State

VILLAGE OF FREEPORT

HARRISON 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
OCTOBER 11, 2007**