



Dave Yost • Auditor of State

VILLAGE OF FREEPORT
HARRISON COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Freeport
Harrison County
P.O. Box 176
Freeport, Ohio 43973

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Freeport, Harrison County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03, which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Freeport, Harrison County, Ohio, as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits, described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during 2011 the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

January 15, 2014

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$8,475	\$2,876	\$11,351
Municipal Income Tax	84,696		84,696
Intergovernmental	18,615	15,938	34,553
Earnings on Investments	34	102	136
Miscellaneous	5,597	164	5,761
<i>Total Cash Receipts</i>	<u>117,417</u>	<u>19,080</u>	<u>136,497</u>
Cash Disbursements			
Current:			
Security of Persons and Property		1,120	1,120
Public Health Services		39	39
Basic Utility Services	216		216
Electricity	7,975		7,975
Transportation		13,842	13,842
General Government	107,901		107,901
<i>Total Cash Disbursements</i>	<u>116,092</u>	<u>15,001</u>	<u>131,093</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>1,325</u>	<u>4,079</u>	<u>5,404</u>
<i>Fund Cash Balances, January 1</i>	<u>202,513</u>	<u>38,865</u>	<u>241,378</u>
Fund Cash Balances, December 31			
Restricted		42,944	42,944
Unassigned (Deficit)	203,838		203,838
<i>Fund Cash Balances, December 31</i>	<u><u>\$203,838</u></u>	<u><u>\$42,944</u></u>	<u><u>\$246,782</u></u>

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

VILLAGE OF FREEPORT
HARRISON COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	<u>\$50,747</u>
<i>Total Operating Cash Receipts</i>	<u>50,747</u>
Operating Cash Disbursements	
Personal Services	22,815
Employee Fringe Benefits	2,586
Contractual Services	16,100
Supplies and Materials	<u>13,441</u>
<i>Total Operating Cash Disbursements</i>	<u>54,942</u>
<i>Operating Income (Loss)</i>	(4,195)
<i>Fund Cash Balances, January 1</i>	<u>9,509</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$5,314</u></u>

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

**VILLAGE OF FREEPORT
HARRISON 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)
Cash Receipts			
Property and Other Local Taxes	\$18,401	\$9,713	\$28,114
Municipal Income Tax	56,908		56,908
Intergovernmental	34,441	20,097	54,538
Fines, Licenses and Permits	88		88
Earnings on Investments	61	175	236
Miscellaneous	7,570		7,570
<i>Total Cash Receipts</i>	<u>117,469</u>	<u>29,985</u>	<u>147,454</u>
Cash Disbursements			
Current:			
Security of Persons and Property		3,193	3,193
Basic Utility Services	316		316
Electricity	7,530	3,654	11,184
Transportation		29,709	29,709
General Government	114,944	18	114,962
Capital Outlay	4,932		4,932
<i>Total Cash Disbursements</i>	<u>127,722</u>	<u>36,574</u>	<u>164,296</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(10,253)</u>	<u>(6,589)</u>	<u>(16,842)</u>
<i>Fund Cash Balances, January 1</i>	<u>212,766</u>	<u>45,454</u>	<u>258,220</u>
Fund Cash Balances, December 31			
Restricted		38,865	38,865
Unassigned (Deficit)	202,513		202,513
<i>Fund Cash Balances, December 31</i>	<u>\$202,513</u>	<u>\$38,865</u>	<u>\$241,378</u>

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

VILLAGE OF FREEPORT
HARRISON COUNTY

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

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	<u>\$45,506</u>
<i>Total Operating Cash Receipts</i>	<u>45,506</u>
Operating Cash Disbursements	
Personal Services	19,302
Employee Fringe Benefits	7,305
Contractual Services	1,262
Supplies and Materials	<u>7,739</u>
<i>Total Operating Cash Disbursements</i>	<u>35,608</u>
<i>Operating Income (Loss)</i>	<u>9,898</u>
Non-Operating Receipts (Disbursements)	
Principal Retirement	(5,148)
Interest and Other Fiscal Charges	<u>(311)</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(5,459)</u>
<i>Net Change in Fund Cash Balances</i>	4,439
<i>Fund Cash Balances, January 1</i>	<u>5,070</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$9,509</u></u>

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

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 Freeport, Harrison County (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, street maintenance, police, park operations, and water utility services. The Village contracts with the Freeport Volunteer Fire Department to receive fire protection services.

The Village participates in Ohio Plan Risk Management, Inc. ("OPRM") public entity risk pool. Note 7 to the financial statements provides additional information for this entity.

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

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. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

State Highway Improvement Fund – This fund receives gasoline tax and motor vehicle tax license money for constructing, maintaining, and repairing Village streets.

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting (Continued)

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 Fund:

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

D. 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. The Village Council must annually approve appropriation measures and subsequent amendments. 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.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. The Village did not encumber all commitments required by Ohio law.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

E. 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.

VILLAGE OF FREEPORT
HARRISON COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Balance (Continued)

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.

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.

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.

2. EQUITY IN POOLED DEPOSITS

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

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

2. EQUITY IN POOLED DEPOSITS (Continued)

	2012	2011
Demand deposits	\$252,096	\$250,887

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by securities specifically pledged by the financial institution to the Village.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$38,606	\$117,417	\$78,811
Special Revenue	10,116	19,080	8,964
Enterprise	0	50,747	50,747
Total	\$48,722	\$187,244	\$138,522

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$88,606	\$116,092	(\$27,486)
Special Revenue	10,116	15,001	(4,885)
Enterprise	25,000	54,942	(29,942)
Total	\$123,722	\$186,035	(\$62,313)

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$37,304	\$117,469	\$80,165
Special Revenue	10,178	29,985	19,807
Enterprise	0	45,506	45,506
Total	\$47,482	\$192,960	\$145,478

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$49,803	\$127,722	(\$77,919)
Special Revenue	12,780	36,574	(23,794)
Enterprise	20,800	41,067	(20,267)
Total	\$83,383	\$205,363	(\$121,980)

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$27,486, Special Revenue Fund Type by \$4,885 and Enterprise Fund Type by \$29,942 for the year ended December 31, 2012. Also contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund by \$77,919, Special Revenue Fund Type by \$23,794 and Enterprise Fund Type by \$20,267 for the year ended December 31, 2011.

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. RETIREMENT SYSTEM

The Village employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2012 and 2011, 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, 2012.

7. RISK MANAGEMENT

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as 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 is legally separate from its member governments.

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

7. RISK MANAGEMENT (Continued)

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.

OPRM coverage programs 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 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

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, 2012 and 2011:

	2012	2011
Assets	\$13,100,381	\$12,501,280
Liabilities	(6,687,193)	(5,328,761)
Members' Equity	<u>\$6,413,188</u>	<u>\$7,172,519</u>

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.



Dave Yost • Auditor of State

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

Village of Freeport
Harrison County
P.O. Box 176
Freeport, Ohio 43973

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Freeport, Harrison County, Ohio (the Village), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated January 15, 2014, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit. We also noted the Village adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. 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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-003 and 2012-004 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, opining on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2012-001 through 2012-004.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

January 15, 2014

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Noncompliance

Ohio Rev. Code Section 5705.41(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. 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. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

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 Ohio Rev. Code Section 5705.41(D)(1) and 5705.41(D)(3), respectively:

Then and Now Certificate - If the fiscal officer can certify that both at the time 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 encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has 30 days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance. Amounts of less than \$3,000, may be paid by the fiscal officer without a resolution or ordinance of the Village 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.

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.

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

One hundred percent of the non-payroll transactions tested in 2012 and 2011 did not have the prior certification of the Clerk/Treasurer, nor was there any evidence the Clerk/Treasurer was using a "then and now" certificate.

Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**VILLAGE OF FREEPORT
HARRISON COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-001 (Continued)

Noncompliance – Ohio Rev. Code Section 5705.41(D)(1) (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 the Clerk/Treasurer certify that funds are or will be available prior to obligations being incurred by the Village. When prior certification is not possible, "then and now" certificates should be used.

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

FINDING NUMBER 2012-002

Noncompliance

Ohio Rev. Code Section 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated.

The following funds were found to have expenditures in excess of appropriations:

2011:

Fund	Appropriations	Expenditures	Variance
General Fund	\$49,803	\$127,722	\$77,919
Street, Construction, Maintenance and Repair Fund	\$2,000	\$33,363	\$31,363
Fire District Fund	\$1,140	\$3,193	\$2,053
Park Fund		\$18	\$18
Water Operating Fund	\$20,800	\$41,067	\$20,267

2012:

General Fund	\$88,606	\$116,092	\$27,486
Street, Construction, Maintenance and Repair Fund	\$8,975	\$10,261	\$1,286
State Highway Fund		\$3,342	\$3,342
Fire District Fund	\$1,141	\$1,159	\$18
Permissive Motor Vehicle License Tax Fund		\$239	\$239
Water Operating Fund	\$25,000	\$54,942	\$29,942

The Village's failure to limit expenditures to the amounts appropriated could result in deficit spending.

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-002 (Continued)

Noncompliance – Ohio Rev. Code Section 5705.41(B) (Continued)

We recommend the Village Council and Village Clerk/Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, the Village Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations or reduce spending. The Village Clerk/Treasurer should deny requests for payment when appropriations are not available.

FINDING NUMBER 2012-003

Noncompliance and Material Weakness

Ohio Admin. Code Section 117-2-02(A) requires that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public officer 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.

The Clerk/Treasurer did not post the prior audit adjustments to the ledgers; therefore, accurate fund balances were not presented on the ledgers, bank reconciliations, and financial reports during the audit period. The deficiencies in the accounting records have resulted in adjustments to the financial statements. The Village Clerk/Treasurer has agreed to the adjustments, and these corrected amounts are reflected in the accompanying financial statements and ledgers. There were also several reclassifications among receipt and disbursement accounts that were agreed to by the Clerk/Treasurer and are reflected in the accompanying financial statements. The adjustments and reclassifications are listed below.

2011:

Fund	Account Type	Amount	Description
General Fund	Beginning Fund Balance	\$1,252	Prior audit adjustment
Special Revenue - State Highway Fund	Beginning Fund Balance	(376)	Prior audit adjustment
Special Revenue - Permissive Motor Vehicle License Tax Fund	Beginning Fund Balance	(876)	Prior audit adjustment
General Fund	Intergovernmental Receipts	9,379	TTP reimbursements posted as miscellaneous receipts instead of intergovernmental.
General Fund	Intergovernmental Receipts	4,400	County grant posted as miscellaneous receipts instead of intergovernmental.
General Fund	Intergovernmental Receipts	20,663	Local government funds and homestead reimbursement posted as taxes instead of intergovernmental.

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-003 (Continued)

Noncompliance and Material Weakness – Ohio Admin. Code Section 117-2-02(A) (Continued)

Special Revenue - Street Fund	Intergovernmental Receipts	3,082	TTP reimbursements posted as miscellaneous Receipts instead of intergovernmental.
Special Revenue - Fire Fund	Intergovernmental Receipts	1,130	TTP reimbursements posted as miscellaneous Receipts instead of intergovernmental.
Special Revenue – Various	Transportation Expenditures	29,709	Street related expenditures recorded as general government instead of transportation.
Special Revenue - Permissive Motor Vehicle License Tax Fund	Taxes	1,468	Permissive tax recorded as intergovernmental instead of taxes.
Enterprise - Water Operating Fund	Principal Expense	5,148	Posted as capital outlay instead of principal payment.
Enterprise - Water Operating	Interest Expense	311	Posted as capital outlay instead of interest payment.

2011:

Fund	Account Type	Amount	Description
General Fund	Intergovernmental Receipts	\$698	TTP reimbursements posted as miscellaneous receipts instead of intergovernmental.
Special Revenue - Permissive Motor Vehicle License Tax Fund	Taxes	1,995	Permissive tax recorded as intergovernmental instead of taxes.

There were also several insignificant reclassifications that were not posted to the financial statements.

Failure to maintain accurate and complete accounting records 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 Clerk/Treasurer should maintain the accounting system to enable the Village to identify, assemble, analyze, classify, record and report all transactions and to maintain accountability. The Village should adopt procedures for the review of posted transactions and subsequent reporting on the financial statements.

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2012-004

Noncompliance and Material Weakness

Ohio Admin. Code Section 117-2-02(C)(1) states that 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 unrealized budgetary receipts and remaining uncommitted balances of appropriations.

The Clerk/Treasurer did not post the amounts of appropriations as approved by Council or the amounts of estimated resources as certified by the County 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 ledgers could result in overspending and negative cash balances. In addition, adjustments were made to the Notes to the Financial Statements.

To effectively control the budgetary cycle and to maintain accountability over Village expenditures and receipts, the Clerk/Treasurer should post to the ledgers, on a timely basis, appropriation amounts as passed by Council and estimated resources as certified by the County budget commission. Council should also monitor budget versus actual reports to ensure supplemental and amended appropriations and amended certificates of resources have been properly posted.

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

**VILLAGE OF FREEPORT
HARRISON COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Ohio Rev. Code Section 5705.41(D) - Disbursements were not properly certified.	No	Reissued as Finding 2012-001 in the Schedule of Findings.
2010-002	Ohio Rev. Code Section 5705.41(B) - Expenditures exceeded appropriations.	No	Reissued as Finding 2012-002 in the Schedule of Findings.
2010-003	Ohio Admin. Code Section 117-2-02(A) - Posting of receipts and expenditures.	No	Reissued as Finding 2012-003 in the Schedule of Findings.
2010-004	Ohio Admin. Code Section 117-2-02(C)(1) - Posting of budgetary information.	No	Reissued as Finding 2012-004 in the Schedule of Findings.
2010-005	Ohio Rev. Code Section 5705.38(A) – Passing of annual appropriation measure.	Yes	



Dave Yost • 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
FEBRUARY 13, 2014