



Mary Taylor, CPA
Auditor of State

**FREEPORT TOWNSHIP
HARRISON COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	15
Schedule of Findings.....	17
Schedule of Prior Audit Findings.....	20

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Mary Taylor, CPA
Auditor of State

Freeport Township
Harrison County
PO Box 235
Freeport, Ohio 43973

To the Board of Trustees:

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

Mary Taylor

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Auditor of State

September 15, 2008

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Freeport Township
Harrison County
PO Box 235
Freeport, Ohio 43973

To the Board of Trustees:

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Township processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Township because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code Section 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code Sections 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

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

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

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

The Township 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 15, 2008, on our consideration of the Township'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.



Mary Taylor, CPA
Auditor of State

September 15, 2008

FREEPORT TOWNSHIP
HARRISON COUNTY

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Cash Receipts:				
Property and Other Local Taxes	\$12,261	\$37,622		\$49,883
Intergovernmental	10,556	125,731		136,287
Earnings on Investments	165	656	\$15	836
Miscellaneous	892	360		1,252
				<hr/>
Total Cash Receipts	<u>23,874</u>	<u>164,369</u>	<u>15</u>	<u>188,258</u>
Cash Disbursements:				
Current:				
General Government	21,071			21,071
Public Safety		15,755		15,755
Public Works	852	94,000		94,852
Health	600	10,969		11,569
Capital Outlay		15,000		15,000
Debt Service:				
Redemption of Principal		13,461		13,461
				<hr/>
Total Cash Disbursements	<u>22,523</u>	<u>149,185</u>	<u>15</u>	<u>171,708</u>
Total Receipts Over/(Under) Disbursements	<u>1,351</u>	<u>15,184</u>	<u>15</u>	<u>16,550</u>
Fund Cash Balances, January 1	<u>5,463</u>	<u>92,565</u>	<u>696</u>	<u>98,724</u>
Fund Cash Balances, December 31	<u>\$6,814</u>	<u>\$107,749</u>	<u>\$711</u>	<u>\$115,274</u>

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

FREEPORT TOWNSHIP
HARRISON COUNTY

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

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Permanent</u>	
Cash Receipts:				
Property and Other Local Taxes	\$11,073	\$35,475		\$46,548
Intergovernmental	11,367	106,955		118,322
Earnings on Investments	98	323	\$15	436
Miscellaneous	68			68
				<hr/>
Total Cash Receipts	<u>22,606</u>	<u>142,753</u>	<u>15</u>	<u>165,374</u>
Cash Disbursements:				
Current:				
General Government	23,616			23,616
Public Safety		15,612		15,612
Public Works	768	86,662		87,430
Health	546	10,651		11,197
Capital Outlay		808		808
Debt Service:				
Redemption of Principal		14,290		14,290
Interest and Other Fiscal Charges		710		710
				<hr/>
Total Cash Disbursements	<u>24,930</u>	<u>128,733</u>		<u>153,663</u>
Total Receipts Over/(Under) Disbursements	<u>(2,324)</u>	<u>14,020</u>	<u>15</u>	<u>11,711</u>
Fund Cash Balances, January 1 (restated)	<u>7,787</u>	<u>78,545</u>	<u>681</u>	<u>87,013</u>
Fund Cash Balances, December 31	<u>\$5,463</u>	<u>\$92,565</u>	<u>\$696</u>	<u>\$98,724</u>

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

**FREEPORT TOWNSHIP
HARRISON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of Freeport Township, Harrison County, (the Township) as a body corporate and politic. A publicly-elected three-member Board of Trustees directs the Township. The Township provides road and bridge maintenance, cemetery maintenance and general government services. The Township contracts with the Freeport Volunteer Fire Department to provide fire services.

The Township participates in the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. Note 7 to the financial statements provides additional information for this entity. This organization is:

The Ohio Township Association Risk Management Authority (OTARMA) provides property and casualty coverage for its members.

The Township's management believes these financial statements present all activities for which the Township 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 Township recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

The Township'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.

The Township values certificates of deposit at cost.

D. Fund Accounting

The Township uses fund accounting to segregate cash and investments that are restricted as to use. The Township 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.

**FREEPORT TOWNSHIP
HARRISON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2. Special Revenue Funds

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

Gasoline Tax Fund - This fund receives gasoline tax money to pay for constructing, maintaining, and repairing Township roads.

3. Permanent Funds

These funds account for assets held under a trust agreement that are legally restricted to the extent that only earnings, not principal, are available to support the Township's programs. The Township had the following significant permanent fund:

Cemetery Endowment Fund – This fund receives interest earned on the nonexpendable corpus from a trust agreement. These earnings are used for the general maintenance and upkeep of the Township's cemetery.

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. The Board of Trustees must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. 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 Township to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Township did not encumber all commitments required by Ohio law.

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

**FREEPORT TOWNSHIP
HARRISON COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Property, Plant, and Equipment

The Township 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

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

	2007	2006
Demand deposits	\$100,274	\$83,724
Certificates of deposit	15,000	15,000
Total deposits	\$115,274	\$98,724

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

3. RESTATEMENT OF 2006 BEGINNING FUND BALANCES

Misstatements noted in the prior audit that were previously designated on the Summary of Unadjusted Differences, materially affected the current beginning fund balances. As a result the following restatement of beginning fund balances was made:

	General	Special Revenue	Permanent	Total All Funds
Original Beginning Fund Balance	\$ 9,065	\$ 77,267	\$ 681	\$ 87,103
Restatement	(1,278)	1,278	-	
Restated Beginning Fund Balance	\$ 7,787	\$ 78,545	\$ 681	\$ 87,103

**FREEPORT TOWNSHIP
HARRISON COUNTY**

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

4. BUDGETARY ACTIVITY

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

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$22,928	\$23,874	\$946
Special Revenue	122,379	164,369	41,990
Permanent	31	15	(16)
Total	\$145,338	\$188,258	\$42,920

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General		\$22,523	(\$22,523)
Special Revenue		149,185	(149,185)
Total		\$171,708	(\$171,708)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$23,920	\$22,606	(\$1,314)
Special Revenue	129,067	142,753	13,686
Permanent	15	15	
Total	\$153,002	\$165,374	\$12,372

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General		\$24,930	(\$24,930)
Special Revenue		128,733	(128,733)
Total		\$153,663	(\$153,663)

Contrary to Ohio Revised Code Section 5705.38, the Township did not adopt permanent appropriations for 2006 or 2007. Contrary to Ohio Revised Code Section 5705.41(B), all expenditures in all funds exceeded appropriations.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Trustees 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.

**FREEPORT TOWNSHIP
HARRISON COUNTY**

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

5. PROPERTY TAX - (Continued)

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 Township.

6. RETIREMENT SYSTEMS

Township 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 2007 and 2006, OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Township contributed an amount equaling 15.85 and 15.7%, respectively, of participants' gross salaries. The Township has paid all contributions required through December 31, 2007.

7. Risk Management

The Township is exposed to various risks of property and casualty losses, and injuries to employees.

The Township insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Township belongs to the Ohio Township Association Risk Management Authority (OTARMA), a risk-sharing pool available to Ohio townships. OTARMA provides property and casualty coverage for its members. OTARMA is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund OTARMA. OTARMA pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

For an occurrence prior to January 1, 2006 OTARMA retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. OTARMA pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with OTARMA.

**FREEPORT TOWNSHIP
HARRISON COUNTY**

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

7. RISK MANAGEMENT - (Continued)

If losses exhaust OTARMA's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

Property Coverage

Through 2004, OTARMA retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

The aforementioned casualty and property reinsurance agreements do not discharge OTARMA's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

OTARMA's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2006 and 2005 (the latest information available):

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$32,031,312	\$30,485,638
Liabilities	<u>(11,443,952)</u>	<u>(12,344,576)</u>
Retained earnings	<u>\$20,587,360</u>	<u>\$18,141,062</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$10,010,963	\$9,177,796
Liabilities	<u>(676,709)</u>	<u>(1,406,031)</u>
Retained earnings	<u>\$9,334,254</u>	<u>\$7,771,765</u>

**FREEPORT TOWNSHIP
HARRISON COUNTY**

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

7. RISK MANAGEMENT - (Continued)

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$10.8 million and \$11.6 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$10.8 million and \$11.6 million of unpaid claims to be billed to approximately 958 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Township's share of these unpaid claims collectible in future years is approximately \$6,212. This payable includes the subsequent year's contribution due if the Township terminates participation, as described in the last paragraph below.

Based on discussions with OTARMA, the expected rates OTARMA charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to OTARMA for each year of membership. The Township began its membership in 2007.

Contributions to OTARMA	
2007	\$3,106

After completing one year of membership, members may withdraw on each anniversary of the date they joined OTARMA provided they give written notice to OTARMA 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

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Mary Taylor, CPA

Auditor of State

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

Freeport Township
Harrison County
PO Box 235
Freeport, Ohio 43973

To the Board of Trustees:

We have audited the financial statements of Freeport Township, Harrison County (the Township) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated September 15, 2008 wherein we noted the Township followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Township uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Township. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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Internal Control over Financial Reporting (Continued)

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. The significant deficiency described above as finding number 2007-003 is also material weakness.

We also noted certain internal control matters that we reported to the Township's management in a separate letter dated September 15, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Township's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2007-001 and 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Township's management in a separate letter dated September 15, 2008.

We intend this report solely for the information and use of management and the Township Board of Trustees. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 15, 2008

**FREEPORT TOWNSHIP
HARRISON COUNTY**

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

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2007-001

Noncompliance Citation

Ohio Revised Code Section 5705.41(D) provides that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

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 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, the Township may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.

If the amount involved is less than \$3,000 the fiscal officer may authorize payment through a Then and Now Certificate without affirmation of the Township Board of Trustees if such expenditure is otherwise valid.

- 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 Township may also make expenditures and contracts for any amount from a specific line item appropriation 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 extent beyond the current year. More than one super blanket may be outstanding a particular time for any line item appropriation.

The Township did not properly certify the amount against the applicable appropriation accounts for 87% of tested expenditures in 2006 and 89% of tested expenditures in 2007. The Township did not utilize the certification exceptions described above for those expenditures lacking prior certification.

Failure to certify the availability of funds and encumber appropriations could result in overspending in negative cash balances. 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 Township's funds exceeding budgetary spending limitations, the Fiscal Officer should certify that the funds are or will be available prior to obligation by the Township. When prior certification is not possible, "then and now" certification should be used.

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

FINDING NUMBER 2007-002

Noncompliance Citation

Ohio Revised Code Section 5705.38 requires, in part, that on or about the first day of the fiscal year, an appropriation measure be passed. **Ohio Revised Code Section 5705.41(B)** states that no subdivision or taxing unit is to expend money unless it has been appropriated.

The Township did not adopt an appropriation measure for either 2006 or 2007 and expenditures are limited by the appropriations established for each fund; therefore, all expenditures made by the Township in 2007 (\$171,708) and in 2006 (\$153,663) were not in compliance with the Ohio Revised Code.

Failure to pass an appropriation measure, which serves as a tool by which expenditures can be monitored, could result in overspending. The Township should pass an appropriation measure as required so that expenditures can be monitored and compliance with the Ohio Revised Code provisions can be attained. Expenditures should be limited to the Board established appropriations for each fund.

FINDING NUMBER 2007-003

Significant Deficiency/Material Weakness

Proper Classification of Receipts and Disbursements

The Township did not correctly code and classify the following receipts and disbursements in 2006 and 2007 which resulted in reclassifications to the financial statements. The Township Fiscal Officer has agreed to the reclassifications and these corrected amounts are reflected in the accompanying financial statements.

2006:

<u>Account Type</u>	<u>Amount</u>	<u>Reason</u>
Intergovernmental Revenue	\$3,469	Recorded as miscellaneous revenue
Payroll Expenditures	\$1,169	Salaries posted to funds without documentation
Debt Expenditures	\$15,000	Recorded as capital outlay

2007

<u>Account Type</u>	<u>Amount:</u>	<u>Reason</u>
Intergovernmental Revenue	\$1,535	Recorded as local taxes
Issue II	\$15,000	Not recorded as a receipt or an expenditure
Debt Expenditures	\$13,461	Recorded as capital outlay

Failure to consistently follow a uniform chart of accounts increases the possibility that the Township 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 Township Fiscal Officer should maintain the accounting system to enable the Township to identify, assemble, analyze, classify, record and report all transactions and to maintain accountability. All transactions should be properly coded and classified according to the UAN chart of accounts to help ensure that financial activity of the Township is accurately recorded and reported. In addition, the Township should adopt procedures for the review of posting of transactions and subsequent posting to the financial statements.

Officials' Response

We did not receive a response from officials to the findings reported above.

**FREEPORT TOWNSHIP
HARRISON COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC Section 5705.38 The Township did not approve an appropriation measure and ORC Section 5705.41(B) - Disbursements exceeded appropriations.	No	Cited again as Finding Number 2007-002



Mary Taylor, CPA
Auditor of State

FREEPORT TOWNSHIP

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
NOVEMBER 18, 2008**