

***VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO***

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2007 & 2006

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



Mary Taylor, CPA

Auditor of State

Members of Village Council
Village of Gnadenhutten
131 South Walnut
P.O. Box 129
Gnadenhutten, Ohio 44629

We have reviewed the *Report of Independent Accountants* of the Village of Gnadenhutten, Tuscarawas County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2007. 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 Gnadenhutten is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 12, 2008

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**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY
For the Years Ending December 31, 2007 and 2006**

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Gnadenhutten
Tuscarawas County
P.O. Box 129
Gnadenhutten, Ohio 44629-0129

To the Village Council:

We have audited the accompanying financial statements of the Village of Gnadenhutten, Tuscarawas County, Ohio as and for the years ended December 31, 2007 and 2006. 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, 2007 and 2006. Instead of the combined funds the accompanying financial statements present for 2007 and 2006, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2007 and 2006. 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, 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 Village as of December 31, 2007 and 2006, 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 Gnadenhutten, Tuscarawas 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 aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2007 and 2006. 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 May 15, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and 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.

Charles E. Harris & Associates, Inc.

May 15, 2008

VILLAGE OF GNADENHUTTEN
TUSCARAWAS 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>			<u>Totals - (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Receipts:				
Property Taxes and Other Local Taxes	\$ 85,966	\$ 19,568	-	\$ 105,534
Municipal Income Taxes	-	308,539	-	308,539
Special Assessments	22,733			22,733
Charges for Services	37,607	28,197	-	65,804
Intergovernmental	43,987	80,578	-	124,565
Fines, Licenses and Permits	3,959	-	-	3,959
Interest	9,746	153	-	9,899
Other	11,926	4,787	-	16,713
Total Receipts	<u>215,924</u>	<u>441,822</u>	<u>-</u>	<u>657,746</u>
Disbursements:				
General Government	92,968	22,352	-	115,320
Security of Persons & Property	53,058	110,941	-	163,999
Community Environment	807	-	-	807
Basic Utilities	141,018	9,684	-	150,702
Public Health Services	671	-	-	671
Transportation	148,938	70,264	-	219,202
Leisure time Activities	18,174	-	-	18,174
Capital Outlay	-	14,988	\$ 35,096	50,084
Debt Service:				
Principal	-	7,802	-	7,802
Interest	-	986	-	986
Total Disbursements	<u>455,634</u>	<u>237,017</u>	<u>35,096</u>	<u>727,747</u>
Receipts over(under) disbursements	<u>(239,710)</u>	<u>204,805</u>	<u>(35,096)</u>	<u>(70,001)</u>
Other Financing Sources (Uses)				
Sale of Fixed Asset	171	-	-	171
Transfers in	153,066	95,670	38,264	287,000
Transfers out	-	(287,000)	-	(287,000)
Total Other Financing Sources (Uses)	<u>153,237</u>	<u>(191,330)</u>	<u>38,264</u>	<u>171</u>
Total Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(86,473)	13,475	3,168	(69,830)
Fund Balance 1/1/2007	<u>140,526</u>	<u>165,407</u>	<u>6,343</u>	<u>312,276</u>
Fund Balance 12/31/2007	<u>\$ 54,053</u>	<u>\$ 178,882</u>	<u>\$ 9,511</u>	<u>\$ 242,446</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 472,634
Interest	10,338
Miscellaneous	15,284
	498,256
Operating Cash Disbursements:	
Personal Services	80,078
Contractual Services	7,518
Supplies and Materials	184,265
Capital Outlay	54,560
	326,421
Operating Income (Loss)	171,835
Non-Operating Cash Receipts/(Disbursements)	
Proceeds of Notes	12,416
Debt Service:	
Principal	(190,721)
Interest and other fiscal charges	(2,350)
	(180,655)
Net Receipts Over/(Under) Disbursements	(8,820)
Fund Cash Balances, January 1	232,768
Fund Cash Balances, December 31	\$ 223,948

See accompanying Notes to the Financial Statements.

VILLAGE OF GNADENHUTTEN
TUSCARAWAS 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>			<u>Totals - (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Receipts:				
Property Taxes and Other Local Taxes	\$ 84,771	\$ 20,071	-	\$ 104,842
Municipal Income Taxes	-	290,471	-	290,471
Charges for Services	49,460	22,623	-	72,083
Intergovernmental	130,694	110,490	-	241,184
Special Assessments	248	-	-	248
Fines, Licenses and Permits	2,641	-	-	2,641
Interest	11,827	2,404	-	14,231
Other	4,887	8,670	902	14,459
Total Receipts	<u>284,528</u>	<u>454,729</u>	<u>902</u>	<u>740,159</u>
Disbursements:				
General Government	94,695	27,205	-	121,900
Security of Persons & Property	81,618	187,993	-	269,611
Community Environment	806	-	-	806
Basic Utilities	68,064	-	-	68,064
Public Health Services	687	-	-	687
Transportation	179,823	84,353	-	264,176
Leisure time Activities	13,856	-	-	13,856
Capital Outlay	-	24,000	\$ 33,000	57,000
Debt Service:				
Principal	-	3,801	-	3,801
Interest	-	593	-	593
Total Disbursements	<u>439,549</u>	<u>327,945</u>	<u>33,000</u>	<u>800,494</u>
Receipts over(under) disbursements	(155,021)	126,784	(32,098)	(60,335)
Other Financing Sources (Uses)				
Sale of Fixed Assets	495	-	-	495
Proceeds of Loan	-	24,000	-	24,000
Transfers in	140,986	88,056	35,119	264,161
Transfers out	-	(264,161)	-	(264,161)
Total Other Financing Sources (Uses)	<u>141,481</u>	<u>(152,105)</u>	<u>35,119</u>	<u>24,495</u>
Total Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(13,540)	(25,321)	3,021	(35,840)
Fund Balance 1/1/2006	<u>154,066</u>	<u>190,728</u>	<u>3,322</u>	<u>348,116</u>
Fund Balance 12/31/2006	<u>\$ 140,526</u>	<u>\$ 165,407</u>	<u>\$ 6,343</u>	<u>\$ 312,276</u>

See accompanying Notes to the Financial Statements.

VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES
IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006

		<u>Proprietary Fund Type</u>
		<u>Enterprise</u>
Operating Cash Receipts:		
Charges for Services	\$	459,080
Interest		8,631
Miscellaneous		3,251
		<hr/>
Total Operating Cash Receipts		470,962
Operating Cash Disbursements:		
Personal Services		120,407
Contractual Services		74,462
Supplies and Materials		56,155
Capital Outlay		410,779
		<hr/>
Total Operating Cash Disbursements		661,803
Operating Income (Loss)		(190,841)
Non-Operating Cash Receipts/(Disbursements):		
Proceeds of Notes		383,443
Debt Service:		
Principal		(191,667)
Interest and other fiscal charges		(6,681)
		<hr/>
Total Non-Operating Cash Receipts/(Disbursements)		185,095
Net Receipts Over/(Under) Disbursements		(5,746)
Fund Cash Balances, January 1		<hr/> 238,514
Fund Cash Balances, December 31	\$	<hr/> <hr/> 232,768

See accompanying Notes to the Financial Statements.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE ENTITY

The Village of Gnadenhutten, (the Village) is a body corporate and politic 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 is directed by a publicly-elected, six-member Council. The Village provides general governmental services, including water and sewer, park operations (leisure time activities), and police and fire services.

The Village's management believes these financial statements included in this report represent all of the funds of the Village over which the Village has the ability to exercise direct operating control.

B. BASIS OF ACCOUNTING

The Village prepares its financial statements following the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis 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.)

The statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. CASH

Certificates of deposit are valued at cost.

D. FUND ACCOUNTING

The Village maintains its accounting records in accordance with the principles of "Fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING – (Continued)

Governmental Fund Types:

General Fund: The general operating fund of the Village. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds: These funds are used to account for proceeds from special 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 Constr. Maint. & Repair fund is used to account for monies restricted for the maintenance and upkeep of Village Streets.
- Police Income Tax Levy fund uses income taxes for salaries and equipment for the police department.
- Fire Levy uses tax money for operations of the fire department.
- Municipal Income Tax fund is used to account for income tax receipts. The income tax receipts are eventually transferred to the general fund, the police income tax fund and capital improvement fund per Village ordinance.

Capital Projects Fund: This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Village has the following significant Capital Projects fund:

- Capital Improvement fund is used to account for proceeds restricted for acquisition or construction of Village projects.

Proprietary Fund Types:

Enterprise Funds: These funds account for operations that are similar to private business enterprises where management intends that the significant costs or providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise funds:

- Water fund is used to account for the resources generated by supplying water to Village residents.
- Sewer fund is used to account for the resources generated by providing sewer services to Village residents.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

D. FUND ACCOUNTING – (Continued)

- Waterline fund is used to account for resources to put new waterlines in the Village.
- Sewer Upgrade Fund is to account for resources used to construct a new sewage treatment.

E. BUDGETARY PROCESS

A budget of estimated cash receipts and disbursements is prepared by the Clerk-Treasurer, approved by the Village Council, and submitted to the county auditor, as secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

1. Estimated Resources

The county auditor calculates the estimated revenues available to the Village. He prepares a certificate of estimated resources based upon this calculation and upon the other financial information supplied in the budget sent by the Village. The certificate is approved by the county budget commission and sent to the Village Clerk-Treasurer by September 1.

Prior to December 31, the Village must revise its budget so that the total budgeted expenditures for a fund will not exceed the amount of stated in the certificate of estimated resources. The revised budget serves as the basis for the annual appropriation measure.

On or about January 1, the Clerk-Treasurer sends the county auditor a certificate to which includes the actual unencumbered balances from the preceding year. The county auditor prepares an amended certificate, submits it to the county budget commission for approval. This amended certificate may be further amended during the year if projected increases or the Clerk-Treasurer identifies decreases in revenue. The amounts reported in Note 6 reflect the amounts in the final amended certificates issued during 2006 and 2007.

Budgeted receipts, as shown in Note 6, do not include the unencumbered fund balances as of January 1, 2006 and 2007. However, those fund balances are available for appropriation.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E BUDGETARY PROCESS – (Continued)

2. Appropriations

A temporary appropriation measure to control cash expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by March 31 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

3. Encumbrances

The Village is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. The sum of expenditures and encumbrances may not exceed appropriated totals at any level of budgetary control. The legal level of control is the fund level.

Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year without being re-appropriated.

F. PROPERTY, PLANT AND EQUIPMENT

Acquisitions of property, plant and equipment are recorded as capital outlay 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.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS

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

	<u>2007</u>	<u>2006</u>
Demand deposits	\$285,719	\$372,799
Certificates of Deposit	<u>180,675</u>	<u>172,245</u>
Total	<u>\$466,394</u>	<u>\$545,044</u>

Deposits: Deposits are either (1) insured by the Federal Deposit Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

3. PROPERTY TAX

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio.

The State Board of Tax Equalization adjusts the tax rates for inflation. Real property owners' tax bills are further reduced by homestead and rollback deductions when applicable. The amount of these homestead and rollback reductions is reimbursed to the Village by the State of Ohio. The amounts reimbursed by the State of Ohio are reflected in the accompanying financial statements as Intergovernmental Receipts.

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

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 Tuscarawas County Treasurer collects property tax on behalf of all taxing entities within the county. The Tuscarawas County Auditor periodically remits to the taxing entities their portions of the taxes collected.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

4. LOCAL INCOME TAX

The Village levies a municipal income tax of 1.5% 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 taxpayer pay estimated taxes quarterly and file a declaration annually. 53.3% of net income tax collections is designated to support general Village operations, 33.4% is designated to support the Village police department and 13.3% is designated to support capital projects of the Village.

5. DEFINED BENEFIT PENSION PLAN

The Village's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2007 and 2006, OPERS members contributed 9.5 percent and 9.0 percent, respectively, of their wages. During 2007 and 2006 the Village contributed an amount equal to 13.85 percent and 13.70 percent, respectively, of participants' gross wages. The Village has paid all contributions required through December 31, 2007.

6. BUDGETARY ACTIVITY

<u>2007 Budgeted vs. Actual Receipts</u>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$455,748	\$ 369,161	\$ (86,587)
Special Revenue	479,217	537,492	58,275
Capital Projects	36,344	38,264	1,920
Enterprise	676,052	510,672	(165,380)

<u>2007 Budgeted vs. Actual Budgetary Basis Expenditures</u>			
<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$350,850	\$ 455,634	\$ (104,784)
Special Revenue	381,000	524,017	(143,017)
Capital Projects	30,000	35,096	(5,096)
Enterprise	446,800	519,492	(72,692)

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

6. BUDGETARY ACTIVITY - (Continued)

<u>2006 Budgeted vs. Actual Receipts</u>			
<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$364,308	\$426,009	\$ 61,701
Special Revenue	581,938	566,785	(15,153)
Capital Projects	28,323	36,021	7,698
Enterprise	640,921	854,405	213,484

<u>2006 Budgeted vs. Actual Budgetary Basis Expenditures</u>			
<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$350,850	\$439,549	\$ (88,699)
Special Revenue	391,000	592,106	(201,106)
Capital Projects	30,000	33,000	(3,000)
Enterprise	481,800	860,151	(378,351)

7. DEBT

Debt outstanding at December 31, 2007 was as follow:

	<u>2007</u>	<u>Interest Rate</u>
OPWC Note (Waterline Replacement)	\$ 122,608	0.00%
Bank Note (Police Improvements)	12,397	5.50%
OWDA - 3185 (Waterline Replacement)	77,281	6.13%
OWDA – 3809 (Water Planning)	2,500	0.00%
OWDA – 4159 (WWTP Improvements)	<u>2,977,664</u>	0.00%
Total	<u>\$3,192,450</u>	

The OPWC note was obtained to complete a waterline project. The loan is collateralized by user fees. The OWDA loans were obtained to provide water and sewer system improvements. OWDA loan #4159 includes \$6,439 of capitalized interest. The loans are all collateralized by user fees.

The bank note was obtained to complete improvements to the Village police department. The loan is unsecured.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

7. DEBT – (Continued)

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

Year ending December 31:	OPWC Note	OWDA Note 3185	OWDA Note 3809	Bank Note
2008	\$ 10,217	\$ 7,262	\$ 2,500	\$ 8,072
2009	10,217	7,262	-	4,929
2010	10,217	7,262	-	-
2011	10,217	7,262	-	-
2012	10,217	7,262	-	-
2013 – 2017	51,085	36,310	-	-
2018 – 2022	20,438	36,310	-	-
2023 – 2025	-	19,101	-	-
Total	<u>\$ 122,608</u>	<u>\$ 128,031</u>	<u>\$ 2,500</u>	<u>\$ 13,001</u>

OWDA has not prepared an amortization schedule for Loan # 4159.

8. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- General Liability
- Public Official's Liability
- Employer's Liability
- Law Enforcement Liability
-

The Village also provides health insurance to full-time employees through a private carrier.

Settled claims have not exceeded commercial coverage in the past three years. Also, there have been no material reductions in coverage during the past year.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

9. JOINTLY GOVERNED ORGANIZATIONS

A. Gnadenhutten-Clay Union Cemetery (Union)

The Cemetery is a jointly governed organization under Ohio Revised Code § 759.27, and is directed by an appointed three-member board. The Village of Gnadenhutten and Clay Township each appoint one member to the board. The third member is a citizen appointed by the other two members. The Village funding provides for burial services, operations and maintenance of the cemetery. The Cemetery reimburses the Village for funding provided. The Village had a receivable of \$26,252 due from the Cemetery at December 31, 2007.

B. Community Improvement Corporation of Tuscarawas County (Corporation)

The Corporation is operated by Tuscarawas County, New Philadelphia, Dover, Uhrichsville, Dennison, Strasburg, Sugar Creek and Gnadenhutten. It is controlled by 25 trustees consisting of the three County Commissioners, the mayor of each participating city and 15 self-selected trustees. The board exercises total control over the operations of the Corporation including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to representation on the board. During 2007 and 2006, no monies were paid to the Corporation by the Village.

C. Tuscarawas County Regional Planning Commission (Commission)

The Commission is a statutorily created political subdivision of the State. The Commission is jointly governed among Tuscarawas County municipalities and townships. Each member's control over the operation of the Commission is limited to its representation on the board. The Commission makes studies, maps, plans, recommendations and reports concerning the physical, environmental, social, economical and governmental characteristics, functions and services of the county. In 2007 and 2006, \$240 was paid to the Commission by the Village for each year.

10. SUBSEQUENT EVENTS/PENDING LITIGATION

Management believes there are no pending claims or lawsuits.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006**

11. BUDGETARY NONCOMPLIANCE

The Village had the following citations for budgetary noncompliance:

- Contrary to **Ohio Rev. Code Section 5705.41(D)**, the Village did not obtain prior certification for expenditures.
- Contrary to **Ohio Rev. Code Section 5705.41(B)**, the Village had expenditures which exceeded appropriations.
- Contrary to **Ohio Rev. Code Section 5705.39**, the Village had appropriations in excess of estimated resources.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Village of Gnadenhutten
Tuscarawas County
P.O. Box 129
Gnadenhutten, Ohio 44629-0129

To the Village Council:

We have audited the financial statements of the Village of Gnadenhutten, Tuscarawas County (the Village) as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated May 15, 2008, wherein we noted the Village followed the cash basis of accounting, a comprehensive accounting basis other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 its applicable accounting basis, 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 2007-VGTC-001 thru 2007-VGTC-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 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 internal control that might be significant deficiencies or 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, grants 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 several instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings as items 2007-VGTC-001 thru 2007-VGTC-004.

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 May 15, 2008.

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

Charles E. Harris & Associates, Inc.

May 15, 2008

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

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

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

**FINDING NUMBER 2007-VGTC-001
Noncompliance Citation and Material Weakness**

Ohio Rev. Code § 5705.41(B) prohibits a subdivision or taxing authority from expending money unless it has been appropriated.

We noted the following funds had expenditures plus encumbrances that exceeded appropriations at December 31, 2007:

Fund	Approved Appropriations	Budgetary Expenditures	Variance
General Fund	\$ 350,850	\$ 455,634	\$ (104,784)
Special Revenue Funds			
SCMR Fund	55,000	79,948	(24,948)
Fire Protection Fund	26,000	40,264	(14,264)
Police Levy Fund	65,000	94,792	(29,792)
Municipal Income Tax Fund	235,000	309,013	(74,013)
Enterprise Funds:			
Water Fund	113,200	116,638	(3,438)
Sewer Fund	140,100	190,867	(50,767)
Sewer Upgrade	176,000	194,487	(18,487)
Capital Projects Fund:			
Capital Improvement	30,000	35,096	(5,096)

The following funds had expenditures plus encumbrances that exceeded appropriations at December 31, 2006:

Fund	Approved Appropriations	Budgetary Expenditures	Variance
General Fund	\$ 350,850	\$ 439,549	\$ (88,699)
Special Revenue Funds:			
SCMR Fund	65,000	84,353	(19,353)
Fire Protection Fund	26,000	119,216	(93,216)
Police Levy Fund	65,000	97,478	(32,478)
Municipal Income Tax Fund	235,000	291,090	(56,090)
Enterprise Funds:			
Sewer Fund	175,100	182,126	(7,026)
Sewer Upgrade	176,000	569,605	(393,605)
Capital Projects Fund:			
Capital Improvement	30,000	33,000	(3,000)

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

**FINDING NUMBER 2007-VGTC-001
(Continued)**

The Clerk-Treasurer should deny payment requests exceeding appropriations, as required by Ohio Rev. Code Section 5705.41(B). We recommend Village Council and the Clerk-Treasurer compare expenditures to appropriations on a monthly basis. If appropriations in addition to those already adopted will be needed, then Council should take the necessary steps to adopt additional appropriations, if possible, to prevent expenditures from exceeding appropriations.

The Clerk-Treasurer will review budgetary requirements and implement as necessary.

**FINDING NUMBER 2007-VGTC-002
Noncompliance Citation and Material Weakness**

Ohio Revised Code Section 5705.41 (D), requires, in part, that no subdivision or taxing unit shall make any contract or order any expenditure unless there is attached thereto a certificate of the fiscal officer of the subdivision certifying that the amount required to meet the obligation has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. 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 state 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.

"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 previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditure by the Village.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

**FINDING NUMBER 2007-VGTC-002
Noncompliance Citation and Material Weakness
(Continued)**

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 predicable 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.

During 2007 and 2006, the Fiscal Officer did not certify any expenditure prior to incurring the obligation. It was also found that none of the three exceptions noted above were utilized for the items to be found in noncompliance.

We recommend the Village’s management implement procedures to gain fiscal control over expenditures. Purchase orders containing the required certification should be utilized to certify the availability of funds prior to commitments being incurred. Appropriations should then be encumbered and balances maintained of unencumbered appropriations. Additional purchase orders should be issued only after the fiscal officer determines that sufficient unencumbered appropriations exist in the amount of the requested purchase.

The Clerk-Treasurer will review budgetary requirements, including purchasing.

FINDING NUMBER 2007-VGTC-003

Noncompliance Citation and Material Weakness

Ohio Revised Code Section 5705.41 (B) provides, in part, that no subdivision or taxing unit is to expend money unless it has been appropriated. The Village applied for and received loans through the Ohio Water Development Authority (OWDA) for improvements to the wastewater treatment plant.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2007 AND 2006**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)

**FINDING NUMBER 2007-VGTC-003
(Continued)**

Noncompliance Citation and Material Weakness

The project was administered by OWDA and the financial activity during 2006 and 2007 was not recorded on the Village's books. As a result, expenditures of \$12,416 during 2007 and \$300,270 during 2006 were made on the Village's behalf but were not appropriated. Construction was ongoing at December 31, 2007.

Loan proceeds received by the Village during 2007 and 2006 and related expenditures made on the Village's behalf by OWDA were not recorded on the Village's books. As a result, the financial activity of the Village was understated for 2007 and 2006. The Village understated receipts, during 2007, by \$12,416 and also understated disbursements by \$12,416. The Village understated receipts, during 2006, by \$300,270 and also understated disbursements by \$300,270. The accompanying financial statements have been adjusted to reflect correct amounts. The Village is in agreement with this adjustment.

We recommend the Village record all transactions made on behalf of the Village in each fund. The Village should refer to Auditor of State Bulletin 2000-08 for additional guidance in accounting for these projects.

The Clerk-Treasurer will review current projects to determine the amount of payments made on the Village's behalf and include this amount as a receipt and disbursement as well as obtaining an amended certificate of estimated resources and approving additional appropriations.

FINDING NUMBER 2007-VGTC-004

Noncompliance Citation and Material Weakness

The Ohio Village Officer's Handbook, Chapter 3, Section M, states that Income tax funds can be recorded in various fund types depending on the requirements and limitations. Accordingly all income tax money received should be recorded in either the general fund or into a special revenue fund if the income tax money is collected for a specific purpose or into an agency fund if the money is being collected on behalf of another government.

The Village recorded all income tax money collected into an expendable trust fund before distributing the money. The Village transferred income tax money to the General, Special Revenue Police Income Tax and the Capital Improvement funds properly.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2007 AND 2006**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE GAGAS – (Continued)**

**FINDING NUMBER 2007-VGTC-004
(Continued)**

Noncompliance Citation and Material Weakness

The Village should record the income tax money in the General Fund or Special Revenue fund and transfer the appropriate amount to the General Fund, Special Revenue - Police Income Tax Fund and the Capital Projects - Capital Improvement Fund.

The Clerk-Treasurer will record income tax receipts in the Special Revenue fund in the future.

FINDING NUMBER 2007-VGTC-005

Noncompliance

Ohio Rev. Code Section 5705.39 requires that total appropriations from each fund shall not exceed total estimated fund resources from each fund as certified by the county budget commission. This section also provides that no appropriation measure shall become effective until the Village obtains the County Auditor’s certificate that total appropriations from each fund do not exceed the total official estimate or amended official estimate when amending estimated resources.

During the year-end December 31, 2007, total appropriations exceeded total estimated resources at year-end as follows:

Fund	Estimated Resources	Appropriations	Variance
Special Revenue Fund:			
Municipal Income Tax Fund	\$ 201,540	\$ 235,000	\$ (33,460)

During the year-end December 31, 2006, total appropriations exceeded total estimated resources at year-end as follows:

Fund	Estimated Resources	Appropriations	Variance
Special Revenue Fund:			
Municipal Income Tax Fund	\$ 222,917	\$ 235,000	\$ (12,083)

Council and the Fiscal Officer should monitor appropriations versus estimated resources and modify as necessary to help avoid overspending.

The Fiscal Officer will review all budgetary requirements and implement as necessary.

VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY
DECEMBER 31, 2007 AND 2006

SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING NUMBER	FUNDING SUMMARY	FULLY CORRECTED?	Not Corrected. Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2005-VGTC-001	Contrary to Ohio Rev. Code Section 5705.41(D), Village did not certify the availability of funds before contracting to procure goods and services.	NO	Not Corrected: This is repeated in the Schedule of Findings as item 2007-VGTC-002
2005-VGTC-002	Contrary to Ohio Rev. Code Section 5705.41(B), expenditures exceeded appropriations both during the year and at year-end.	NO	Not Corrected: This is repeated in the Schedule of Findings as item 2007-VGTC-001.
2005-VGTC-003	The Village did not record the receipts and expenditures made on its behalf by the Ohio Water Development Authority.	NO	Not Corrected: This is repeated in the Schedule of Findings as item 2007-VGTC-003.



Mary Taylor, CPA
Auditor of State

VILLAGE OF GNADENHUTTEN

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 26, 2008**