

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

*Financial Statements
(Audited)*

For The Years Ended
December 31, 2007 and 2006

SUE MERMANN, FISCAL OFFICER



Mary Taylor, CPA

Auditor of State

Village Council
Village of Mount Gilead
72 West High Street
Mount Gilead, Ohio 43338

We have reviewed the *Independent Auditor's Report* of the Village of Mount Gilead, Morrow County, prepared by Julian & Grube, 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 *Independent Auditor's Report* 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 *Independent Auditor's Report* 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 Mount Gilead is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

September 18, 2008

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**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1 - 2
Combined Statement of Cash Fund Balances - All Fund Types December 31, 2007 and 2006	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Fund Balances - All Governmental Fund Types For the Year Ended December 31, 2007	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Fund Balances - Proprietary Fund Type and Similar Fiduciary Fund Type - For the Year Ended December 31, 2007	5
Combined Statement of Cash Receipts, Cash Disbursements and Encumbrances Compared with Expenditure Authority - Budget and Actual For the Year Ended December 31, 2007	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Fund Balances - All Governmental Fund Types For the Year Ended December 31, 2006	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Fund Balances - Proprietary Fund Type and Similar Fiduciary Fund Type - For the Year Ended December 31, 2006	8
Combined Statement of Cash Receipts, Cash Disbursements and Encumbrances Compared with Expenditure Authority - Budget and Actual For the Year Ended December 31, 2006	9
Notes to the Financial Statements	10 - 21
Supplementary Data:	
Schedule of Expenditures of Federal Awards	22
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	23 - 24
Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With <i>OMB Circular A-133</i>	25 - 26
Schedule of Findings and Responses <i>OMB Circular A-133 § .505</i>	27 - 32



Julian & Grube, Inc.
Serving Ohio Local Governments

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Independent Auditor's Report

Members of Council and Mayor
Village of Mount Gilead
72 West High Street
Mount Gilead, Ohio 43338

We have audited the accompanying financial statements of the Village of Mount Gilead, Morrow County, Ohio, as of and for the years ended December 31, 2007 and 2006. These financial statements are the responsibility of the Village of Mount Gilead's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

As described in Note 2, the Village of Mount Gilead 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 requires presenting entity wide statements and also presenting the Village of Mount Gilead's larger (i.e. major) funds separately. While the Village of Mount Gilead 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 Auditor of State permits, but does not require governments to reformat their statements. The Village of Mount Gilead has elected not to follow GAAP statement formatting 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 Village of Mount Gilead as of December 31, 2007 and 2006, or its changes in financial position or cash flows of its proprietary funds 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 Mount Gilead, Morrow County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements, combined budgeted and actual cash receipts and budgeted and actual cash disbursements and encumbrances for the years then ended on the accounting basis described in Note 2.

The Village of Mount Gilead 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.

As disclosed in Note 3A of the accompanying notes to the financial statements, the Village of Mount Gilead changed its method of presentation from the cash-basis to a regulatory basis. In addition, certain funds were reclassified from special revenue fund types to capital project fund types.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2008 on our consideration of the Village of Mount Gilead'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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Mount Gilead's financial statements. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2006 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements of the Village of Mount Gilead. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Julian & Grube, Inc.
May 30, 2008

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

COMBINED STATEMENT OF CASH FUND BALANCES
ALL FUND TYPES
DECEMBER 31, 2007 AND 2006

<u>Cash and Cash Equivalents</u>	2007	2006
Cash and Cash Equivalents	\$ 6,360,679	\$ 3,842,820
Total Cash and Cash Equivalents	\$ 6,360,679	\$ 3,842,820
<u>Cash Fund Balances</u>		
<u>Governmental Fund Types:</u>		
General	\$ 2,670,757	\$ 701,747
Special Revenue	285,635	257,865
Debt Service	368	368
Capital Projects	328,391	372,556
Total Governmental Fund Types:	3,285,151	1,332,536
<u>Proprietary Fund Type:</u>		
Enterprise	3,071,109	2,502,712
Total Proprietary Fund Type:	3,071,109	2,502,712
<u>Fiduciary Fund Type:</u>		
Agency	4,419	7,572
Total Fiduciary Fund Type	4,419	7,572
Total Fund Balances	\$ 6,360,679	\$ 3,842,820

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

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

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash receipts:					
Local taxes	\$ 987,102	\$ 82,101	\$ -	\$ 47,029	\$ 1,116,232
Intergovernmental	2,004,442	161,077	-	-	2,165,519
Charges for services	-	149,749	-	-	149,749
Fines, licenses, and permits	59,983	-	-	-	59,983
Interest	59,639	9,444	-	5,238	74,321
Miscellaneous	52,421	6,604	-	-	59,025
Total cash receipts	3,163,587	408,975	-	52,267	3,624,829
Cash disbursements:					
Current:					
Security of persons and property	427,346	303,068	-	-	730,414
Public health services	2,258	-	-	-	2,258
Community environment	-	295,603	-	-	295,603
General government	284,421	61,129	-	-	345,550
Capital outlay	15,552	86,405	-	196,432	298,389
Total cash disbursements	729,577	746,205	-	196,432	1,672,214
Total cash receipts over/(under) cash disbursements	2,434,010	(337,230)	-	(144,165)	1,952,615
Other financing receipts/(disbursements):					
Operating transfers in	-	380,000	-	100,000	480,000
Operating transfers out	(465,000)	(15,000)	-	-	(480,000)
Total other financing receipts/(disbursements)	(465,000)	365,000	-	100,000	-
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	1,969,010	27,770	-	(44,165)	1,952,615
Cash fund balances, January 1, 2007	701,747	257,865	368	372,556	1,332,536
Cash fund balances, December 31, 2007	\$ 2,670,757	\$ 285,635	\$ 368	\$ 328,391	\$ 3,285,151

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH
FUND BALANCES - PROPRIETARY FUND TYPE
AND SIMILAR FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007

	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)
	Enterprise	Agency	
Operating cash receipts:			
Charges for services	\$ 1,923,730	\$ -	\$ 1,923,730
Other miscellaneous	1,737	-	1,737
Total operating cash receipts	<u>1,925,467</u>	<u>-</u>	<u>1,925,467</u>
Operating cash disbursements:			
Personal services	517,131	-	517,131
Contractual services	279,373	-	279,373
Supplies and material	105,232	-	105,232
Capital outlay	2,930,295	-	2,930,295
Total operating cash disbursements	<u>3,832,031</u>	<u>-</u>	<u>3,832,031</u>
Operating income	<u>(1,906,564)</u>	<u>-</u>	<u>(1,906,564)</u>
Nonoperating cash receipts/(disbursements):			
Local taxes	36,711	-	36,711
Intergovernmental receipts	10,000	-	10,000
Interest receipts	88,494	-	88,494
Proceeds of notes	2,632,610	-	2,632,610
Fines collected	-	55,396	55,396
Fines disbursed	-	(58,549)	(58,549)
Debt service:			
Principal	(190,000)	-	(190,000)
Interest	(102,854)	-	(102,854)
Total nonoperating cash receipts/(disbursements)	<u>2,474,961</u>	<u>(3,153)</u>	<u>2,471,808</u>
Income/(loss) before operating transfers	<u>568,397</u>	<u>(3,153)</u>	<u>565,244</u>
Transfers in	134,662	-	134,662
Transfers out	(134,662)	-	(134,662)
Total transfers in/(out)	<u>-</u>	<u>-</u>	<u>-</u>
Net cash receipts over/(under) cash disbursements	568,397	(3,153)	565,244
Cash fund balances, January 1, 2007	<u>2,502,712</u>	<u>7,572</u>	<u>2,510,284</u>
Cash fund balances, December 31, 2007	<u>\$ 3,071,109</u>	<u>\$ 4,419</u>	<u>\$ 3,075,528</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007**

Fund Types	County Certified Unencumbered Cash	Receipts				Disbursements				Variance Favorable (Unfavorable)		
		Budget	Total Estimated Resources	Actual 2007 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2007 Appropriations	Total	Actual 2007 Disbursements		Encumbrances Outstanding at 12/31/07	
Governmental:												
General	\$ 687,291	\$ 1,779,517	\$ 3,163,587	\$ 2,071,361	\$ 14,456	\$ 1,289,063	\$ 1,303,519	\$ 1,194,577	\$ 10,989	\$ 1,205,566	\$ 97,953	
Special Revenue	247,097	763,681	788,975	272,391	10,768	905,934	916,702	761,205	88,817	850,022	66,680	
Debt Service	368	368	-	-	-	-	-	-	-	-	-	
Capital Projects	369,480	778,949	152,267	(257,202)	3,076	237,300	240,376	196,432	-	196,432	43,944	
Proprietary:												
Enterprise	2,445,836	4,378,182	4,827,944	2,895,598	56,876	2,287,691	2,344,567	4,259,547	38,209	4,297,756	(1,953,189)	
Total (Memorandum Only)	\$ 3,750,072	\$ 7,700,697	\$ 8,932,773	\$ 4,982,148	\$ 85,176	\$ 4,719,988	\$ 4,805,164	\$ 6,411,761	\$ 138,015	\$ 6,549,776	\$ (1,744,612)	

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

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

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash receipts:					
Local taxes	\$ 970,030	\$ 85,020	\$ -	\$ 46,598	\$ 1,101,648
Intergovernmental	89,757	181,892	-	-	271,649
Special assessments	68,494	-	-	-	68,494
Charges for services	-	152,732	-	-	152,732
Fines, licenses, and permits	-	3,447	-	-	3,447
Interest	35,776	1,396	104	2,401	39,677
Miscellaneous	43,653	2,959	-	-	46,612
Total cash receipts	<u>1,207,710</u>	<u>427,446</u>	<u>104</u>	<u>48,999</u>	<u>1,684,259</u>
Cash disbursements:					
Current:					
Security of persons and property	404,961	300,574	-	-	705,535
Public health services	1,233	-	-	-	1,233
Basic utility services	4,969	-	-	-	4,969
Transportation	-	286,199	-	-	286,199
General government	301,764	42,183	-	-	343,947
Capital outlay	12,085	104,091	-	93,565	209,741
Total cash disbursements	<u>725,012</u>	<u>733,047</u>	<u>-</u>	<u>93,565</u>	<u>1,551,624</u>
Total cash receipts over/(under) cash disbursements	<u>482,698</u>	<u>(305,601)</u>	<u>104</u>	<u>(44,566)</u>	<u>132,635</u>
Other financing receipts/(disbursements):					
Operating transfers in	-	267,060	-	50,000	317,060
Operating transfers out	(307,060)	(10,000)	-	-	(317,060)
Total other financing receipts/(disbursements)	<u>(307,060)</u>	<u>257,060</u>	<u>-</u>	<u>50,000</u>	<u>-</u>
Excess of cash receipts and other financing receipts over/(under) cash disbursements and other financing disbursements	175,638	(48,541)	104	5,434	132,635
Cash fund balances, January 1, 2006 (Restated)	<u>526,109</u>	<u>306,406</u>	<u>264</u>	<u>367,122</u>	<u>1,199,901</u>
Cash fund balances, December 31, 2006	<u>\$ 701,747</u>	<u>\$ 257,865</u>	<u>\$ 368</u>	<u>\$ 372,556</u>	<u>\$ 1,332,536</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH
FUND BALANCES - PROPRIETARY FUND TYPE
AND SIMILAR FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006

	Proprietary Fund Type	Fiduciary Fund Type	Total
	Enterprise	Agency	(Memorandum Only)
Operating cash receipts:			
Charges for services	\$ 1,581,974	\$ -	\$ 1,581,974
Total operating cash receipts	1,581,974	-	1,581,974
Operating cash disbursements:			
Personal services	482,531	-	482,531
Transportation	1,183	-	1,183
Contractual services	227,155	-	227,155
Supplies and material	114,246	-	114,246
Capital outlay	4,413,855	-	4,413,855
Total operating cash disbursements	5,238,970	-	5,238,970
Operating income	(3,656,996)	-	(3,656,996)
Nonoperating cash receipts/(disbursements):			
Local taxes	37,535	-	37,535
Intergovernmental receipts	490,000	-	490,000
Interest	66,030	-	66,030
Proceeds of notes	4,341,085	-	4,341,085
Fines collected	-	63,633	63,633
Fines disbursed	-	(56,716)	(56,716)
Debt service:			
Principal	(570,415)	-	(570,415)
Interest	(134,471)	-	(134,471)
Total nonoperating cash receipts/(disbursements)	4,229,764	6,917	4,236,681
Income before operating transfers	572,768	6,917	579,685
Transfers in	361,542	-	361,542
Transfers out	(361,542)	-	(361,542)
Total transfers in/(out)	-	-	-
Net cash receipts over cash disbursements	572,768	6,917	579,685
Cash fund balances, January 1, 2006 (Restated)	1,929,944	655	1,930,599
Cash fund balances, December 31, 2006	\$ 2,502,712	\$ 7,572	\$ 2,510,284

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND ENCUMBRANCES COMPARED WITH EXPENDITURE
AUTHORITY - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006**

Fund Types	Receipts					Disbursements					Variance Favorable (Unfavorable)	
	County Certified Unencumbered Cash	Budget	Total Estimated Resources	Actual 2006 Receipts	Variance Favorable (Unfavorable)	Prior Year Carryover Appropriations	2006 Appropriations	Total	Actual 2006 Disbursements	Encumbrances Outstanding at 12/31/06		Total
Governmental:												
General	\$ 509,277	\$ 1,091,245	\$ 1,600,522	\$ 1,207,710	\$ 116,465	\$ 17,142	\$ 1,191,911	\$ 1,209,053	\$ 1,032,072	\$ 14,456	\$ 1,046,528	\$ 162,525
Special Revenue	264,982	741,266	1,006,248	694,506	(46,760)	41,424	811,936	853,360	743,047	10,768	753,815	99,545
Debt Service	264	35	299	104	69	-	-	-	-	-	-	-
Capital Projects	322,122	153,000	475,122	98,999	(54,001)	45,000	98,000	143,000	93,565	3,076	96,641	46,359
Proprietary:												
Enterprise	1,908,878	2,320,633	4,229,511	6,878,166	4,557,533	21,066	2,647,006	2,668,072	6,305,398	56,876	6,362,274	(3,694,202)
Total	\$ 3,005,523	\$ 4,306,179	\$ 7,311,702	\$ 8,879,485	\$ 4,573,306	\$ 124,632	\$ 4,748,853	\$ 4,873,485	\$ 8,174,082	\$ 85,176	\$ 8,259,258	\$ (3,385,773)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 1 - DESCRIPTION OF THE ENTITY

The Village of Mount Gilead (the "Village") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Village operates under a council-mayor form of government and provides the following services: water and sewer utility services, street maintenance and repair, as well as other general government services.

Management believes the financial statements included in this report represent all of the funds of the Village over which the Village officials are financially accountable.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant of the Village's accounting policies are described below.

A. BASIS OF PRESENTATION - FUND ACCOUNTING

The accounts of the Village are maintained on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts. The following fund types are used by the Village:

Governmental Fund Type:

General Fund

The general fund is the general operating fund and is used to account for all activities of the Village not required to be included in another fund.

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are legally restricted expenditures for specific purposes.

The Village had the following significant special revenue funds:

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

Fire Fund - This fund receives property tax and charges for services monies to provide fire and emergency medical services for the Village.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Debt Service Fund

The debt service fund is used to accumulate resources for the payment of bonds and note indebtedness.

The Village had the following debt service fund:

General Bond Obligation Fund - This fund receives interest and transfers in to pay for the acquisition and construction of water treatment and distribution facilities with related equipment and site improvements.

Capital Projects Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise funds). The Village had the following significant Capital Project Fund:

Fire Equipment Reserve - This fund accounts for all significant capital outlay transactions relating to Village's fire department. This fund receives transfers primarily from the fire fund.

Proprietary Fund Type:

Enterprise Funds

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

Sewer Capital Improvement - This fund accounts for all capital outlay transactions relating to the construction of a new wastewater treatment facility, which is funded in part by loan proceeds from Ohio Water Development Authority (OWDA).

Fiduciary Fund Type:

Agency Funds

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following agency fund:

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Mayor's Court - This fund receives monies from collections on fines imposed from tickets issued by the Village's police protection force. Funds are collected in part on behalf of the State of Ohio. In addition, funds are used for the maintenance and updating of the Mayor's Court computers and supporting general Village operations.

B. BASIS OF ACCOUNTING

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. BUDGETARY PROCESS

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds are legally required to be budgeted and appropriated except agency funds. The primary level of budgetary control is at the item level within each department, within each fund. Any budgetary modifications at this level may only be made by resolution of the Village's Council.

Tax Budget:

A budget of estimated cash receipts and disbursements is 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. The expressed purpose of the tax budget is to reflect the need for existing (or increased) tax rates.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Estimated Resources:

The County Budget Commission determines if the budget substantiates a need to levy the full amount of authorized property tax rates and reviews receipt estimates. The County Budget Commission certifies its actions to the Village by September 1. As part of this certification, the Village receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about January 1, the certificate is amended to include unencumbered fund balances at December 31 of the preceding year. Further amendments may be made during the year if the Village determines that receipts collected will be greater than or less than the prior estimates and the Budget Commission finds the revised estimates to be reasonable. Prior to December 31, the Village must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

Appropriations:

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriations measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources. The Village legally adopted several supplemental appropriations during 2007 and 2006.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The Village had outstanding encumbrances at December 31, 2007 and 2006.

D. CASH AND CASH EQUIVALENTS

For reporting purposes, the Village considers "Cash and Cash Equivalents" to be cash on hand, demand deposits, and all investments held by the Village with a maturity date less than or equal to three months from the date of purchase. Interest earned on investments held by the Village is credited to its respective funds. Interest income earned and received by the Village totaled \$162,815 and \$105,707 for the years ended December 31, 2007 and 2006, respectively.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. PROPERTY, PLANT AND EQUIPMENT

Capital assets are not capitalized in any of the Village's funds. Instead, capital acquisition and construction costs are reflected as expenditures in the fund in the year expended. The costs of normal maintenance and repairs are also expended, along with improvements. Depreciation is not recorded.

F. INTERGOVERNMENTAL REVENUES

Intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursable basis are recorded when received in accordance with the Village's cash basis method of accounting.

G. INTERFUND TRANSACTIONS

During the course of normal operations, the Village had transactions between funds. The most significant include:

Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers.

H. TOTAL COLUMNS ON FINANCIAL STATEMENTS

Total columns on the financial statements are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Interfund-type eliminations have not been made in the aggregation of this data.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Restatement of Fund Balances

The Village is restating its beginning fund balances at January 1, 2006. The restatements are due to the Village reporting in accordance with GASB 34 - cash basis (Audit of State Bulletin 2005-02) during fiscal year 2005 and converting to report on the regulatory cash basis for 2006 and 2007. In addition, certain funds were reclassified from special revenue fund types to capital project fund types to comply with Ohio Revised Code Section 5705.13(C). The restatement had the following effects on the Village's fund balances:

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

	Total <u>General</u>	Total Special <u>Revenue</u>	Total Capital <u>Projects</u>	Total Debt <u>Service</u>	Total <u>Enterprise</u>	Total <u>Agency</u>	<u>Total</u>
Balance 01/01/06	\$ 599,667	\$ 418,974	\$ 181,651	\$ 264	\$ 1,929,944	\$ -	\$ 3,130,500
Reclass due to Regulatory Basis	(73,558)	72,903	-	-	-	655	-
Reclass due to Fund Type	-	(185,471)	185,471	-	-	-	-
Restated Balances 01/01/06	<u>\$ 526,109</u>	<u>\$ 306,406</u>	<u>\$ 367,122</u>	<u>\$ 264</u>	<u>\$ 1,929,944</u>	<u>\$ 655</u>	<u>\$ 3,130,500</u>

B. Compliance

- i. The Village had expenditures in excess of appropriations for the years ended December 31, 2007 and 2006 in noncompliance with Ohio Revised Code Section 5705.41(B) and 5705.40.
- ii. The Village did not timely complete fiscal officer certificates for the year ended December 31, 2006 in noncompliance with Ohio Revised Code Section 5705.41(D).
- iii. The Village had reserve funds that were not properly classified and established in noncompliance with Ohio Revised Code Section 5705.13(C).

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

At fiscal year-end 2007 and 2006, the Village had \$400 in undeposited cash on hand, which is included on the combined statement of cash fund balances.

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and cash equivalents and investments at December 31, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Cash & Cash Equivalents:		
Demand deposits	\$ 2,051,777	\$ 1,844,721
Cash on hand	400	400
Investments:		
STAR Ohio	<u>4,308,502</u>	<u>1,997,699</u>
Total deposits and investments	<u>\$ 6,360,679</u>	<u>\$ 3,842,820</u>

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

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

NOTE 5 - PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Village. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County annually. However, if the property owner elects, they may make semiannual payments.

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

Tangible personal property tax revenues received in 2007 and 2006 (other than public utility property) represent the collection of 2007 and 2006 taxes, respectively. Tangible personal property taxes received in 2007 and 2006 were levied after October 1, 2006 and 2005, respectively, on the true value as of December 31, 2006 and 2005, respectively. In prior years, tangible personal property assessments were twenty-five percent of true value for capital assets and twenty-three percent of true value for inventory. Tangible personal property tax is being phased out - the assessment percentage for property, including inventory, was 18.75% for 2006. This percentage was reduced to 12.5% for 2007, and will be 6.25% for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

House Bill No. 66 was signed into law on June 30, 2005. House Bill No. 66 phases out the tax on tangible personal property of general businesses, telephone and telecommunications companies, and railroads. The tax on general business and railroad property will be eliminated by calendar year 2009, and the tax on telephone and telecommunications property will be eliminated by calendar year 2011. The tax is phased out by reducing the assessment rate on the property each year. The bill replaces the revenue lost by the Village due to the phasing out of the tax. In calendar years 2006-2010, the Village will be fully reimbursed for the lost revenue. In calendar years 2011-2017, the reimbursements will be phased out.

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

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 6 - DEBT OBLIGATIONS

At December 31, 2007 and 2006, debt obligations consisted of the following issuance:

<u>Description</u>	<u>Balance at December 31, 2007</u>	<u>Balance at December 31, 2006</u>
2006 Ohio Water Development Authority for construction of waste water treatment plant.	\$ 6,971,825	\$ 4,339,215
1999 Mortgage Revenue Refunding Bonds for construction of water sewer system, due in 2017 of varying amounts through 2017, bearing a varying interest rate.	<u>2,530,000</u>	<u>2,720,000</u>
Total Debt Obligations	<u>\$ 9,501,825</u>	<u>\$ 7,059,215</u>

Transactions for the years ended December 31, 2007 and 2006 are summarized as follows:

<u>2007</u>	<u>Balance at 12/31/06</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at 12/31/07</u>
<u>Description</u>				
Mortgage Revenue Refunding Bonds	\$ 2,720,000	\$ -	\$ (190,000)	\$ 2,530,000
OWDA Loan-Construction	<u>4,339,215</u>	<u>2,632,610</u>	<u>-</u>	<u>6,971,825</u>
Total	<u>\$ 7,059,215</u>	<u>\$ 2,632,610</u>	<u>\$ (190,000)</u>	<u>\$ 9,501,825</u>
<u>2006</u>	<u>Balance at 12/31/05</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at 12/31/06</u>
<u>Description</u>				
Mortgage Revenue Refunding Bonds	\$ 2,905,000	\$ -	\$ (185,000)	\$ 2,720,000
OWDA Loan-Planning	346,237	1,870	(348,107)	-
OWDA Loan-Construction	-	4,339,215	-	4,339,215
Promissory Note	<u>37,308</u>	<u>-</u>	<u>(37,308)</u>	<u>-</u>
Total	<u>\$ 3,288,545</u>	<u>\$ 4,341,085</u>	<u>\$ (570,415)</u>	<u>\$ 7,059,215</u>

The construction loans had \$6,244 and \$3,614 of capitalized interest accumulated during 2007 and 2006, respectively.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 6 - DEBT OBLIGATIONS - (Continued)

The principal and interest requirements to retire the debt obligation outstanding at December 31, 2007 follows:

<u>Year Ending December 31</u>	<u>Mortgage Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 200,000	\$ 129,568
2009	210,000	120,268
2010	220,000	110,293
2011	230,000	99,513
2012	245,000	88,243
2013 - 2017	<u>1,425,000</u>	<u>236,738</u>
Total	<u>\$ 2,530,000</u>	<u>\$ 784,623</u>

The OWDA construction loan has not yet been finalized and currently there is no amortization schedule available.

The Promissory Note was issued in 2002 at an interest rate of 3.9% with a maturity date of December 12, 2007, however the Village paid the remaining balance of the note in 2006.

NOTE 7 - RETIREMENT SYSTEMS

The Village’s full-time law enforcement officers belong to the Ohio Police & Fire Pension Funds (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. These plans provide retirement benefits, including post-retirement 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, members of OP&F contributed 10% of their wages to the OP&F. The Village contributed an amount equal to 19.5% and 24.0% of their wages, respectively, for police officers and firefighters. OPERS members contributed 9.5% and 9.0% for 2007 and 2006, respectively, of their gross salaries. The Village contributed an amount equal to 13.85% and 13.70% respectively, of participants’ gross salaries. The Village has paid all required contributions as of December 31, 2007 and 2006.

NOTE 8 - RISK MANAGEMENT

The Village belongs to the Ohio Government Risk Management Plan (the “Plan”), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments (“Members”).

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 8 - RISK MANAGEMENT - (Continued)

The Plan provides property, liability, errors and omissions, law enforcement, automobile, excessive liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A-VII or better rated carriers, except for the 5% portion retained by the Plan. After September 1, 2003, the Plan pays the lesser of 5% or \$25,000 of casualty losses and the lesser of 5% or \$50,000 of property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007, 2006 and 2005 follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets	\$ 11,136,455	\$ 9,620,148	\$ 8,219,430
Liabilities	<u>(4,273,553)</u>	<u>(3,329,620)</u>	<u>(2,748,639)</u>
Members' Equity	<u>\$ 6,862,902</u>	<u>\$ 6,290,528</u>	<u>\$ 5,470,791</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

NOTE 9 - CONTINGENT LIABILITY

LITIGATION

The Village is currently not involved in litigation for which the Village's legal counsel anticipates a loss.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 10 - INTERFUND TRANSACATIONS

The Village had the following interfund transactions for the year ended December 31, 2007:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 465,000
Special Revenue Funds:		
Street & Maintenance and Repair	250,000	15,000
Fire	20,000	-
Income Tax	60,000	-
Police & Fire Pension	50,000	-
Total Special Revenue Funds	<u>380,000</u>	<u>15,000</u>
Capital Improvement Funds:		
Police Equipment Reserve	20,000	-
Street Equipment Reserve	15,000	-
Fire Equipment Reserve	65,000	-
Total Capital Improvement Funds	<u>100,000</u>	<u>-</u>
Enterprise Funds:		
Water	-	69,942
Sewer	-	64,720
Water Work Capital Improvement	69,942	-
Sewer Capital Improvement	64,720	-
Total Enterprise Funds	<u>134,662</u>	<u>134,662</u>
Total Transfers	<u>\$ 614,662</u>	<u>\$ 614,662</u>

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE 10 - INTERFUND TRANSACATIONS - (Continued)

The Village had the following interfund transactions for the year ended December 31, 2006:

<u>Fund Type/Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 307,060
Special Revenue Funds:		
Street & Maintenance and Repair	180,000	10,000
Income Tax	62,060	-
Police & Fire Pension	25,000	-
Total Special Revenue Funds	<u>267,060</u>	<u>10,000</u>
Capital Improvements Funds:		
Police Equipment Reserve	15,000	-
Street Equipment Reserve	10,000	-
Fire Equipment Reserve	25,000	-
Total Capital Improvement Funds	<u>50,000</u>	<u>-</u>
Enterprise Funds:		
Water	-	70,575
Sewer	-	215,967
Trash	-	75,000
Water Work Capital Improvement	70,575	-
Sewer Capital Improvement	215,967	-
Trash Equipment Reserve	75,000	-
Total Enterprise Funds	<u>361,542</u>	<u>361,542</u>
Total Transfers	<u>\$ 678,602</u>	<u>\$ 678,602</u>

The transfers from the Street & Maintenance and Repair fund are to the Street Equipment Reserve fund for capital acquisition. The transfers from the Water, Sewer funds are to their respective reserve funds for acquisitions. The 2006 transfer from Trash fund is to the Trash Reserve fund for capital acquisition.

All transfers were in accordance with Sections 5705.14, 5705.15, 5705.16 of the Ohio Revised Code.

SUPPLEMENTARY DATA

**VILLAGE OF MOUNT GILEAD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2006**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	PASS-THROUGH GRANT NUMBER	(A),(B) CASH DISBURSEMENTS
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT PASSED THROUGH THE OHIO DEPARTMENT OF DEVELOPMENT			
Community Development Block Grants/State's Program	14.228	C-W-05-326-1	\$ 490,000
Total U.S. Department of Housing and Urban Development			<u>490,000</u>
U. S. DEPARTMENT OF JUSTICE BUREAU OF JUSTICE ASSISTANCE OFFICE OF JUSTICE PROGRAMS PASSED THROUGH THE OHIO OFFICE OF CRIMINAL JUSTICE SERVICES			
Edward Bryne Memorial Formula Grant	16.579	200-DG-GOV-9257	<u>2,464</u>
Total U.S. Department of Justice			<u>2,464</u>
U.S. DEPARTMENT OF HOMELAND SECURITY PASSED THROUGH N/A			
Assistance to Firefighters Grant	97.044	N/A	<u>19,632</u>
Total U.S. Department of Homeland Security			<u>19,632</u>
			<u>\$ 512,096</u>

- (A) The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes activity of the Village's federal award programs. The schedule has been prepared on the cash basis of accounting.
- (B) Certain Federal programs require that the Village contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Village has complied with the matching requirements. The expenditures of non-Federal matching funds is not included on the Schedule.



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Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of Council and Mayor
Village of Mount Gilead
72 West High Street
Mount Gilead, Ohio 43338

We have audited the financial statements of the Village of Mount Gilead, Morrow County, Ohio, as of and for the year ended December 31, 2007 and 2006 and have issued our report thereon dated May 30, 2008, wherein we noted the Village of Mount Gilead followed accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. As disclosed in Note 3A, to the accompanying notes to the financial statements, the Village of Mount Gilead changed its method of presentation from the cash-basis to a regulatory basis. In addition, certain funds were reclassified from special revenue fund types to capital project fund types. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Mount Gilead's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Mount Gilead's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Village of Mount Gilead'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 to be a significant deficiency.

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 of Mount Gilead'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 of Mount Gilead's financial statements that is more than inconsequential will not be prevented or detected by the Village of Mount Gilead's internal control. We consider the deficiency described in the accompanying schedule of findings and responses as item 2007-VOMG-001 to be a significant deficiency in internal control over financial reporting.

Members of Council and Mayor
Village of Mount Gilead

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 of Mount Gilead'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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above, finding 2007-VOMG-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Mount Gilead's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2007-VOMG-002, 2007-VOMG-003, 2007-VOMG-004 and 2007-VOMG-005.

We noted certain other matters that we have reported to the management of the Village of Mount Gilead in a separate letter dated May 30, 2008.

The Village of Mount Gilead's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village of Mount Gilead's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and Council of the Village of Mount Gilead and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
May 30, 2008



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Report on Compliance With Requirements Applicable to Its Major Program and on Internal Control Over Compliance in Accordance With *OMB Circular A-133*

Members of Council and Mayor
Village of Mount Gilead
72 West High Street
Mount Gilead, Ohio 43338

Compliance

We have audited the compliance of the Village of Mount Gilead, Morrow County, Ohio, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. The Village of Mount Gilead's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and responses. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Village of Mount Gilead's management. Our responsibility is to express an opinion on the Village of Mount Gilead's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village of Mount Gilead's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Village of Mount Gilead's compliance with those requirements.

In our opinion, the Village of Mount Gilead complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2006.

However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with *OMB Circular A-133* and which is described in the accompanying schedule of findings and responses as item 2007-VOMG-006.

Members of Council and Mayor
Village of Mount Gilead

Internal Control Over Compliance

The management of the Village of Mount Gilead is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Village of Mount Gilead's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village of Mount Gilead's internal control over compliance.

A control deficiency in the Village of Mount Gilead's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Mount Gilead's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Village of Mount Gilead's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Village of Mount Gilead's internal control.

Our consideration of internal control over compliance 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Village of Mount Gilead's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Village of Mount Gilead's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Council and the management of the Village of Mount Gilead, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Julian & Grube, Inc.
May 30, 2008

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007 AND 2006**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unqualified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Programs' Compliance Opinion</i>	Unqualified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under §.510?</i>	Yes
<i>(d)(1)(vii)</i>	<i>Major Program:</i>	Community Development Block Grants/State's Program: CFDA #14.228
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: >\$300,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee?</i>	No

**VILLAGE OF MT. GILEAD
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007 AND 2006**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2007-VOMG-001

Significant Deficiency/Material Weakness

In May of 2006, the American Institute of Certified Public Accountants (AICPA), the national professional organization for certified public accountants, issued its Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*. This standard became effective for audits of financial statements for periods ending on or after December 15, 2006.

The AICPA establishes auditing standards generally accepted in the United States that certified public accountants and government auditors must follow in conducting audits of state and local governments. SAS No. 112 establishes standards, responsibilities and guidance for auditors during a financial statement audit engagement for identifying and evaluating a client’s internal control over financial reporting. This new standard requires the audit to report *in writing* to management and the governing body any control deficiencies found during the audit that are considered significant deficiencies and/or material weaknesses. To this end, SAS No. 112 lists specific control deficiencies that should be regarded as at least a significant deficiency and a strong indicator of a material weakness in internal control.

We identified misstatements in the financial statements for the years under audit that were not initially identified by the Village’s internal control. The audit adjustments were made to the Village’s financial statements. A description of the adjustments follows:

OWDA Debt - The Village’s 2004 planning loan was retired in 2006 and reissued as part of the 2006 OWDA loan. An audit adjustment was made to reflect the loan payoff of \$348,107 and subsequent re-issue. In addition, the Village received \$4,339,215 in loan proceeds during 2006, of which a portion was not recorded. An adjustment was made to reflect the issuance of additional proceeds. During 2007 the Village incurred an additional \$2,632,610 in loan proceeds. An adjustment was made to reflect the proceeds of the debt issuances and increase capital outlay disbursements.

Federal Grant Award - The Village received a federal grant and recorded the funds into the Miscellaneous Receipts line item for \$490,000 and \$10,000 during 2006 and 2007 respectively on the combined statement in the annual cash reports. An audit adjustment was made in 2007 and 2006 to record the grants as intergovernmental receipts.

Mortgage Revenue Bond Payments - The Village made the required principal and interest payments on a mortgage revenue bond for 2007 and 2006. However, the Village recorded these amounts in the capital outlay line item in their general ledger. An adjustment was made to reflect principal and interest payments in 2007 and 2006.

Promissory Note Payment - In a prior year, the Village issued a promissory note for the purchase of a refuse truck and recorded the principal and interest payments as capital outlay during 2006. An adjustment was made to reflect the principal and interest payments in 2006.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007 AND 2006**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-VOMG-001 - (Continued)

Mayor’s Court - The Village conducts a Mayor’s Court however, the Village did not include the activity as an Agency fund on the annual cash report submitted to the Auditor of State’s office. An adjustment in the amount of \$55,396 and \$63,633 for receipts in 2007 and 2006, respectively was recorded and \$58,549 and \$56,716 for expenditures in 2007 and 2006 respectively, was recorded and will be made to record the activities of the Mayor’s Court.

Annual Cash Report - The Village did not properly prepare its annual cash report. The summary pages did not reflect functions. Numerous adjustments were required to properly reflect fund receipts and expenditures in accordance with Auditor of State format and receipt and disbursement line items.

Reclassify Funds - The Village’s financial statements include a prior period adjustment to reclassify certain funds to properly present fund type data, consistent with the requirements of Ohio Revised Code Section 5705.13(C).

We recommend the Village attempt to properly classify receipts disbursements on the annual cash report and contact the Auditor of State’s Office or the Village Handbook when establishing new funds.

Client Response: The Village will prepare the annual cash report more accurately in 2008 and will inquire with their software provider.

Finding Number	2007-VOMG-002
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Ohio Revised Code Section 5705.40 in part requires that any appropriation measure may be amended or supplemented if the entity complies with the same laws used in making the original appropriation. However, no appropriation may be reduced below an amount sufficient to cover all un-liquidated and outstanding contracts or obligations against them.

The Village had total expenditures exceeding total appropriations at year end and throughout the years ended December 31, 2007 and 2006.

By not timely and properly modifying the Village’s appropriations, the Village is not adequately monitoring its expenditures versus appropriations. This may result in appropriating monies in excess of estimated resources, and having expenditures exceed appropriations, and possibly, fund deficits.

We recommend that the Village comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations records and amending the appropriations throughout the year and prior to year end. In addition, the Village should monitor its budgetary process on a regular basis.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007 AND 2006**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-VOMG-002 - Continued

Client Response: These instances were a direct result of payments made on behalf of the Village and not communicated to the Village.

Finding Number	2007-VOMG-003
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Ohio Revised Code Section 5705.41(B) requires in part that no subdivision is to expend monies unless it has been appropriated.

At December 31, the Village had disbursements in excess of appropriations in the following funds:

2007

<u>Fund Type/Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<u>Enterprise Fund</u>			
Sewer Capital Improvement	\$ 654,152	\$ 2,820,490	\$(2,166,338)

2006

<u>Fund Type/Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<u>Enterprise Fund</u>			
Sewer Capital Improvement	905,531	4,692,556	(3,787,025)

With disbursements exceeding appropriations, the Village is spending monies that have not been lawfully appropriated by Village Council. This may result in unnecessary spending or overspending which may result in a negative fund balance.

We recommend that the Village comply with the Ohio Revised Code and the Auditor of State Bulletin 97-010 by monitoring their expenditures so they do not exceed lawful appropriations and amending the budget prior to year end. This may be achieved by monitoring the budget more closely on a continual basis.

Client Response: These instances were a direct result of payments made on behalf of the Village and not communicated to the Village.

Finding Number	2007-VOMG-004
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Ohio Revised Code Section 5705.41 (D) requires that no orders or contracts involving the expenditure of monies are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007 AND 2006**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS - (Continued)	
Finding Number	2007-VOMG-004 - Continued

The Village had 21 out of 73 expenditures for 2006 that were not certified in a timely manner, primarily due to payments related for services and contracts for the sewer plant construction.

Without timely certification, the Fiscal Officer may expend more funds than available in the treasury or in the process of collection, or than funds appropriated. This could result in negative fund balances, non proper public purpose expenditures or unnecessary purchases.

We recommend that all orders or contracts involving the expenditure of monies be timely certified. This will ensure all monies expended are lawfully appropriated and available in the treasury or in the process of collection. The Fiscal Officer should consider using “Then” and “Now” certificates where applicable.

Client Response: These instances were primarily due to the sewer plant construction where payments were made on behalf of the Village.

Finding Number	2007-VOMG-005
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Ohio Revised Code Section 5705.13(C) requires in part capital projects reserve accounts.

The Village classified three capital project reserves accounts as special revenue funds and one enterprise capital project fund as a special revenue fund. The audited financial statements have been adjusted to reflect the funds in the appropriate fund type.

Improper classification of funds could cause the reader to misunderstand activities of the Village.

We recommend the Village by resolution, or by ordinance, establish these funds appropriately. The ordinance or resolution shall identify the source of the money to be used to acquire, construct, or improve the capital assets identified in the resolution or ordinance, the amount of money to be accumulated for that purpose, the period to time over which that amount is to be accumulated (to a maximum of ten years) and the capital assets that the Village intends to acquire, construct, or improve with the money to be accumulated in the fund.

We further recommend the Village review this code section for any additional stipulations that may be required. In addition, we recommend the Village contact its software provider to seek out guidance for categorizing these funds appropriately within their accounting software.

Client Response: Three of these funds were established in the 1990’s. They have always been presented as they were prior to the audit adjustment without any irregularity issues known to the Village’s management. The Village will contact their software provider and work towards a resolution to comply with this requirement.

**VILLAGE OF MOUNT GILEAD
MORROW COUNTY, OHIO**

**SCHEDULE OF FINDINGS AND RESPONSES
OMB CIRCULAR A-133 § .505
DECEMBER 31, 2007 AND 2006**

3. FINDINGS FOR FEDERAL AWARDS

Audit Requirement - For the year ended December 31, 2006

Finding Number	2007-VOMG-006
CFDA Title and Number	Community Development Block Grants/State's Program: CFDA #14.228
Federal Award Number/Year	C-W-05-326-1
Federal Agency	U.S. Department of Housing and Urban Development
Pass-Through Agency	Ohio Department of Development

Non-Compliance Finding

31 U.S.C. 7502(a)(1)(A) requires non-federal entities that expend \$500,000 or more in a year in Federal Awards shall have an annual Single or Program-Specific audit conducted for that year and filed with the Federal Audit Clearing House within nine months after year end.

The Village expended \$512,096 in federal awards in 2006 and did not have an annual Single Audit conducted until 2008.

Without a single audit being conducted in a timely manner the Village is potentially affecting its federal funding status.

We recommend the Village implement a monitoring procedure to ensure the Village has a Single Audit conducted when required. We further recommend the Village notify the Auditor of State's office should it determine it has spent more than the required threshold.

Client Response: The Fiscal Officer contacted the Auditor of State's office and was instructed that they were not a single audit, however it was later determined that the Village had in fact exceeded the \$500,000 threshold and required a single audit during the year 2006.



Mary Taylor, CPA
Auditor of State

VILLAGE OF MT. GILEAD

MORROW COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 2, 2008**