

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

AUDIT REPORT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2004

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



**Auditor of State
Betty Montgomery**

Village Council
Village of Gnadenhutten
131 S. Walnut Street
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, 2004 through December 31, 2005. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

August 23, 2006

This Page is Intentionally Left Blank.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY
For the Years Ending December 31, 2005 and 2004**

TABLE OF CONTENTS

<u>Title</u>	<u>Page</u>
Report of Independent Accountants	1-2
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Fund, For the Year Ended December 31, 2005	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances – Proprietary Fund Type, For the Year Ended December 31, 2005	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Fund, For the Year Ended December 31, 2005	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Balances – Proprietary Fund Type, For the Year Ended December 31, 2005	6
Notes to the Financial Statements	7-15
Independent Accountants’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	16-17
Schedule of Findings	18-21
Schedule of Prior Audit Findings	22

This Page is Intentionally Left Blank.

Rockefeller Building
614 W Superior Ave Ste1242
Cleveland OH 44113-1306
Phone - (216) 575-1630
Fax - (216) 436-2411

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

REPORT OF INDEPENDENT ACCOUNTANTS

To the Village Council
Village of Gnadenhutten
Tuscarawas County
Gnadenhutten, Ohio

We have audited the accompanying financial statements of the Village of Gnadenhutten, Tuscarawas County, Ohio as and for the years ended December 31, 2005 and 2004. 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 year ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004. 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, 2005 and 2004, 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, 2005 and 2004, or its changes in financial position for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Gnadenhutten, Tuscarawas County, as of December 31, 2005 and 2004, 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, 2005 and 2004. 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 June 20, 2006, 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.

June 20, 2006

VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES -
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Types</u>	<u>Totals - (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Receipts:					
Property Taxes and Other Local Taxes	\$ 85,508	\$ 88,999	-	-	\$ 174,507
Municipal Income Taxes	-	-	-	\$ 287,653	287,653
Charges for Services	34,477	29,982	-	-	64,459
Intergovernmental	48,513	58,038	-	-	106,551
Fines, Licenses and Permits	2,551	-	-	-	2,551
Interest	9,062	6,066	-	-	15,128
Other	5,203	6,221	-	-	11,424
Total Receipts	<u>185,314</u>	<u>189,306</u>	<u>-</u>	<u>287,653</u>	<u>662,273</u>
Disbursements:					
General Government	78,126	313	-	18,695	97,134
Security of Persons & Property	42,630	106,908	-	-	149,538
Community Environment	920	-	-	-	920
Basic Utilities	41,489	6,798	-	-	48,287
Public Health Services	676	-	-	-	676
Transportation	105,282	60,352	-	-	165,634
Leisure time Activities	8,348	-	-	-	8,348
Capital Outlay	14,074	1,053	\$ 36,399	-	51,526
Total Disbursements	<u>291,545</u>	<u>175,424</u>	<u>36,399</u>	<u>18,695</u>	<u>522,063</u>
Receipts over(under) disbursements	(106,231)	13,882	(36,399)	268,958	140,210
Other Financing Sources (Uses)					
Transfers in	143,477	89,605	35,843	-	268,925
Transfers out	-	-	-	(268,925)	(268,925)
Total Other Financing Sources (Uses)	<u>143,477</u>	<u>89,605</u>	<u>35,843</u>	<u>(268,925)</u>	<u>-</u>
Total Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	37,246	103,487	(556)	33	140,210
Fund Balance 1/1/2005	<u>116,820</u>	<u>85,840</u>	<u>3,878</u>	<u>1,368</u>	<u>207,906</u>
Fund Balance 12/31/2005	<u>\$ 154,066</u>	<u>\$ 189,327</u>	<u>\$ 3,322</u>	<u>\$ 1,401</u>	<u>\$ 348,116</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, 2005

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 418,685
Miscellaneous	4,021
	422,706
Total Operating Cash Receipts	422,706
Operating Cash Disbursements:	
Personal Services	96,626
Contractual Services	62,152
Supplies and Materials	152,506
Capital Outlay	2,722,760
	3,034,044
Total Operating Cash Disbursements	3,034,044
Operating Income (Loss)	(2,611,338)
Non-Operating Cash Receipts/(Disbursements):	
Proceeds of Notes	2,685,086
Debt Service:	
Principal	(101,682)
Interest and other fiscal charges	(21,110)
	2,562,294
Total Non-Operating Cash Receipts/(Disbursements)	2,562,294
Net Receipts Over/(Under) Disbursements	(49,044)
Fund Cash Balances, January 1	287,558
Fund Cash Balances, December 31	\$ 238,514

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 AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Types</u>	<u>Totals - (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Receipts:					
Property Taxes and Other Local Taxes	\$ 80,243	\$ 20,353	-	-	\$ 100,596
Municipal Income Taxes	-	-	-	\$ 255,661	255,661
Charges for Services	35,068	21,935	-	-	57,003
Intergovernmental	139,644	72,897	-	-	212,541
Fines, Licenses and Permits	2,446	-	-	-	2,446
Interest	2,850	1,807	-	-	4,657
Other	19,761	3,107	-	-	22,868
Total Receipts	<u>280,012</u>	<u>120,099</u>	<u>-</u>	<u>255,661</u>	<u>655,772</u>
Disbursements:					
General Government	72,179	4,095	-	19,009	95,283
Security of Persons & Property	36,664	86,739	-	-	123,403
Community Environment	690	-	-	-	690
Basic Utilities	84,627	-	-	-	84,627
Public Health Services	1,001	-	-	-	1,001
Transportation	52,663	60,698	-	-	113,361
Leisure time Activities	9,220	-	-	-	9,220
Capital Outlay	27,288	18,156	\$ 48,527	-	93,971
Debt Service:					
Principal	3,732	1,316	-	-	5,048
Interest	274	78	-	-	352
Total Disbursements	<u>288,338</u>	<u>171,082</u>	<u>48,527</u>	<u>19,009</u>	<u>526,956</u>
Receipts over(under) disbursements	<u>(8,326)</u>	<u>(50,983)</u>	<u>(48,527)</u>	<u>236,652</u>	<u>128,816</u>
Other Financing Sources (Uses)					
Transfers in	125,065	78,668	31,266	-	234,999
Transfers out	-	-	-	(234,999)	(234,999)
Total Other Financing Sources (Uses)	<u>125,065</u>	<u>78,668</u>	<u>31,266</u>	<u>(234,999)</u>	<u>-</u>
Total Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	116,739	27,685	(17,261)	1,653	128,816
Fund Balance 1/1/2004	<u>81</u>	<u>58,155</u>	<u>21,139</u>	<u>(285)</u>	<u>79,090</u>
Fund Balance 12/31/2004	<u>\$ 116,820</u>	<u>\$ 85,840</u>	<u>\$ 3,878</u>	<u>\$ 1,368</u>	<u>\$ 207,906</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, 2004

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 468,385
Miscellaneous	1,950
	470,335
Operating Cash Disbursements:	
Personal Services	93,661
Contractual Services	75,250
Supplies and Materials	57,831
Capital Outlay	321,303
	548,045
Operating Income (Loss)	(77,710)
Non-Operating Cash Receipts/(Disbursements)	
Proceeds of Notes	187,505
Debt Service:	
Principal	(12,230)
Interest and other fiscal charges	(5,307)
	169,968
Net Receipts Over/(Under) Disbursements	92,258
Fund Cash Balances, January 1	195,300
Fund Cash Balances, December 31	\$ 287,558

See accompanying Notes to the Financial Statements.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

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, 2005 and 2004**

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 fund:

- 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.

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 fund:

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

Fiduciary Fund Type:

Fiduciary Funds (Expendable Trust Funds) The Village uses a trust fund 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.

VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 2004 and 2005.

Budgeted receipts, as shown in Note 6, do not include the unencumbered fund balances as of January 1, 2004 and 2005. However, those fund balances are available for appropriation.

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.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

E BUDGETARY PROCESS – (Continued)

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.

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>2005</u>	<u>2004</u>
Demand deposits	\$426,630	\$335,464
Certificates of Deposit	<u>160,000</u>	<u>160,000</u>
Total	<u>\$586,630</u>	<u>\$495,464</u>

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

2. EQUITY IN POOLED CASH AND CASH EQUIVALENTS – (Continued)

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 are levied on assessed values, which equal 35% of appraised value. The county auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2004.

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.

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.

The property owners, who must file a list of such property to the County by each April 30, assess tangible personal property tax.

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.

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.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

5. DEFINED BENEFIT PENSION PLAN

The Ohio Public Employees Retirement System (OPERS) is a cost-sharing multiple-employer defined benefit pension plan. OPERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement and 10% for law enforcement. For local government employer units the rate was 13.55% of covered payroll for other than law enforcement and 16.70% for law enforcement. The Village has paid all contributions required through December 31, 2005.

6. BUDGETARY ACTIVITY

2005 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$286,810	\$ 328,791	\$ 41,981
Special Revenue	232,049	278,911	46,862
Capital Projects	34,000	35,843	1,843
Enterprise	660,848	3,107,792	(2,446,944)
Expendable Trust	221,000	287,653	66,653

2005 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$350,000	\$ 291,545	\$ 58,455
Special Revenue	184,500	175,424	9,076
Capital Projects	28,000	36,399	(8,399)
Enterprise	568,000	3,156,836	(2,588,836)
Expendable Trust	200,000	287,620	(87,620)

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$285,980	\$405,077	\$ 119,097
Special Revenue	143,000	198,767	55,767
Capital Projects	26,000	31,266	5,266
Enterprise	363,760	657,840	294,080
Expendable Trust	220,000	255,661	35,661

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$287,500	\$288,338	\$ (838)
Special Revenue	146,500	171,082	(24,582)
Capital Projects	35,000	48,527	(13,527)
Enterprise	398,840	565,582	(166,742)
Expendable Trust	180,000	254,008	(74,008)

7. DEBT

Debt outstanding at December 31, 2005 was as follows:

	<u>2005</u>	<u>Interest Rate</u>
OPWC Note (Waterline Replacement)	\$ 143,042	0.00%
OWDA - 3185 (Waterline Replacement)	83,051	6.13%
OWDA – 3809 (Water Planning)	7,500	0.00%
OWDA – 4159 (WWTP Improvements)	<u>2,932,989</u>	6.39%
Total	<u>\$3,166,582</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, which is not reflected in the financial statements. The loans are all collateralized by user fees. The outstanding debt balance in the prior report was understated by \$25,049.

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

Year ending December 31:	OPWC Note	OWDA Note 3185	OWDA Note 3809
2006	\$ 10,217	\$ 7,262	\$ 2,500
2007	10,217	7,262	2,500
2008	10,217	7,262	2,500
2009	10,217	7,262	-
2010	10,217	7,262	-
2011 – 2015	51,085	36,310	-
2016 – 2020	40,872	36,310	-
2021 – 2025	-	33,625	-
Total	<u>\$ 143,042</u>	<u>\$ 142,555</u>	<u>\$ 7,500</u>

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

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

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.

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 Cemetery provides burial services, operations and maintenance of the cemetery. During 2005 and 2004, no monies were paid to the Cemetery by the Village.

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 2005 and 2004, no monies were paid to the Corporation by the Village.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY, OHIO
Notes to the Financial Statements
For the Years Ended December 31, 2005 and 2004**

9. JOINTLY GOVERNED ORGANIZATIONS – (Continued)

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 2005 and 2004, \$128 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.

11. BUDGETARY NONCOMPLIANCE

The Village had the following citations for budgetary noncompliance:

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

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland, OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

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

INDEPENDENT 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
221 South Main Street
Gnadenhutten, Ohio 43793

We have audited the accompanying financial statements of the Village of Gnadenhutten, Tuscarawas County, Ohio (the "Village") as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated June 20, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings as items 2005-VGTC-002 and 2005-VGTC-004.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated June 20, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters, noncompliance with which could have a direct and material affect 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 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 2005-VGTC-001 through 2005-VGTC-004. We also noted certain immaterial instances of noncompliance that we have reported to management of the Village in a separate letter dated June 20, 2006.

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

Charles E. Harris and Associates, Inc.

June 20, 2006

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2005 AND 2004**

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

FINDING NUMBER 2004-VGTC-001

Noncompliance Citation

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, 2005:

Fund	Approved Appropriations	Budgetary Expenditures	Variance
Special Revenue Funds			
Street Construction, Maintenance & Repair Fund	\$ 53,500	\$ 67,150	\$ (13,650)
Fire Protection Fund	40,000	48,140	(8,140)
Enterprise Funds:			
Sewer Upgrade	200,000	3,273,919	(3,073,919)
Capital Projects Fund:			
Capital Improvement	28,000	36,399	(8,399)
Fiduciary Fund:			
Municipal Income Tax	200,000	287,510	(87,510)

The following funds had expenditures plus encumbrances that exceeded appropriations at December 31, 2004:

Fund	Approved Appropriations	Budgetary Expenditures	Variance
General Fund	\$ 287,500	\$ 288,338	\$ (838)
Special Revenue Funds:			
Street Construction, Maintenance & Repair Fund	53,500	65,066	(11,566)
Fire Protection Fund	32,000	47,484	(15,484)
Enterprise Funds:			
Water Fund	95,200	101,362	(6,162)
Waterline Fund	8,740	17,648	(8,908)
Sewer Fund	164,900	167,387	(2,487)
Sewer Upgrade	130,000	273,843	(143,843)
Fiduciary Fund:			
Municipal Income Tax	180,000	254,008	(74,008)

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2005 AND 2004**

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

**FINDING NUMBER 2004-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 2004-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, 2005 AND 2004

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

FINDING NUMBER 2004-VGTC-002
(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 predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

During 2005 and 2004, 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 2004-VGTC-003

Noncompliance Citation

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. The project was administered by OWDA and the financial activity during 2004 and 2005 was not recorded on the Village’s books. As a result, expenditures of \$187,505 during 2004 and \$2,685,086 during 2005 were made on the Village’s behalf but were not appropriated. Construction was ongoing at December 31, 2005.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS – (Continued)
DECEMBER 31, 2005 AND 2004**

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

**FINDING NUMBER 2004-VGTC-003
(Continued)**

Loan proceeds received by the Village during 2004 and 2005 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 2004 and 2005.

The Village understated receipts, during 2004, by \$187,505 and also understated disbursements by \$187,505. The Village understated receipts, during 2005, by \$2,685,086 and also understated disbursements by \$2,685,086. 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 2004-VGTC-004

Noncompliance Citation and Material Weakness

The Ohio Village Officer's Handbook, Chapter 3, Section M, states that income tax revenue can be recorded in various fund types depending on the requirements and limitations. Accordingly, all income tax monies 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 monies 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 in accordance with a Village ordinance.

The Village should record the income tax monies directly to the appropriate funds, or record all monies in the General Fund and transfer the appropriate amount to the Special Revenue Police Income Tax fund and Capital Improvement fund. A separate account of the General fund should be established to track income tax monies allocated.

The Clerk-Treasurer will review options for recording income tax receipts.

VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY
DECEMBER 31, 2005 AND 2004

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
2003-VGTC-001	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 2005-VGTC-002
2003-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 2005-VGTC-001.
2003-VGTC-003	Village had funds with negative fund balances throughout the year for both 2003 and 2002.	YES	Fully corrected.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
SEPTEMBER 5, 2006**