



Mary Taylor, CPA  
Auditor of State



VILLAGE OF GRATIS  
PREBLE COUNTY

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Mary Taylor, CPA  
Auditor of State

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

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

*Mary Taylor*

**Mary Taylor, CPA**  
Auditor of State

September 18, 2008

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# Mary Taylor, CPA

Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

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

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

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. 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 GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village 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 as of December 31, 2007 and 2006, or its changes in financial position or cash flows, where applicable 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 and reserves for encumbrances of the Village of Gratis, Preble County, Ohio, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The 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 September 18, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Mary Taylor, CPA**  
Auditor of State

September 18, 2008



**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$21,798	\$30,674	\$0	\$52,472
Intergovernmental	44,252	63,930	137,073	245,255
Charges for Services		245,652		245,652
Fines, Licenses and Permits	47,222			47,222
Earnings on Investments	1,974	146		2,120
Miscellaneous	12,405	30,686		43,091
<b>Total Cash Receipts</b>	<u>127,651</u>	<u>371,088</u>	<u>137,073</u>	<u>635,812</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	70,350	36,338		106,688
Public Health Services		122,032		122,032
Leisure Time Activities	500	380		880
Transportation		39,366		39,366
General Government	65,984	1,906		67,890
Debt Service:				
Redemption of Principal	7,620	43,259		50,879
Interest and Fiscal Charges	281	1,982		2,263
Capital Outlay	9,378	75,619	137,073	222,070
<b>Total Cash Disbursements</b>	<u>154,113</u>	<u>320,882</u>	<u>137,073</u>	<u>612,068</u>
<b>Total Receipts Over/(Under) Disbursements</b>	<u>(26,462)</u>	<u>50,206</u>	<u>0</u>	<u>23,744</u>
<b>Other Financing Receipts / (Disbursements):</b>				
Proceeds from Sale of Public Debt:				
Other Debt Proceeds	7,620			7,620
Sale of Fixed Assets	523			523
Other Financing Uses		(4,146)		(4,146)
<b>Total Other Financing Receipts / (Disbursements)</b>	<u>8,143</u>	<u>(4,146)</u>	<u>0</u>	<u>3,997</u>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<u>(18,319)</u>	<u>46,060</u>	<u>0</u>	<u>27,741</u>
<b>Fund Cash Balances, January 1</b>	<u>23,923</u>	<u>210,129</u>	<u>58</u>	<u>234,110</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$5,604</b></u>	<u><b>\$256,189</b></u>	<u><b>\$58</b></u>	<u><b>\$261,851</b></u>
<b>Reserve for Encumbrances, December 31</b>	<u><b>\$347</b></u>	<u><b>\$3,744</b></u>	<u><b>\$31,352</b></u>	<u><b>\$35,443</b></u>

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$350,721	\$0	\$350,721
Total Operating Cash Receipts	350,721	0	350,721
<b>Operating Cash Disbursements:</b>			
Personal Services	74,001		74,001
Employee Fringe Benefits	13,691		13,691
Contractual Services	384,027		384,027
Supplies and Materials	29,220		29,220
Other	265		265
Total Operating Cash Disbursements	501,204	0	501,204
Operating (Loss)	(150,483)	0	(150,483)
<b>Non-Operating Cash Receipts:</b>			
Intergovernmental	79,813		79,813
Other Debt Proceeds	224,685		224,685
Miscellaneous Receipts	1,128		1,128
Other Non-Operating Cash Receipts		73,763	73,763
Total Non-Operating Cash Receipts	305,626	73,763	379,389
<b>Non-Operating Cash Disbursements:</b>			
Capital Outlay	17,932		17,932
Redemption of Principal	91,550		91,550
Interest and Other Fiscal Charges	54,889		54,889
Other Non-Operating Cash Disbursements		59,223	59,223
Total Non-Operating Cash Disbursements	164,371	59,223	223,594
Net Receipts Over/(Under) Disbursements	(9,228)	14,540	5,312
Fund Cash Balances, January 1	217,909	4,570	222,479
<b>Fund Cash Balances, December 31</b>	<b><u>\$208,681</u></b>	<b><u>\$19,110</u></b>	<b><u>\$227,791</u></b>
Reserve for Encumbrances, December 31	<u>\$18,539</u>	<u>\$0</u>	<u>\$18,539</u>

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property and Local Taxes	\$21,923	\$25,597	\$0	\$47,520
Intergovernmental	44,313	71,594		115,907
Charges for Services		180,119		180,119
Fines, Licenses and Permits	51,743			51,743
Earnings on Investments	1,546	351		1,897
Miscellaneous	5,730	17,002		22,732
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	125,255	294,663	0	419,918
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	44,231	42,857		87,088
Public Health Services		123,099		123,099
Leisure Time Activities	849			849
Transportation		40,676		40,676
General Government	61,906	6,290		68,196
Debt Service:				
Redemption of Principal		15,649		15,649
Interest and Fiscal Charges		2,011		2,011
Capital Outlay	4,384	63,459		67,843
	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	111,370	294,041	0	405,411
Total Receipts Over Disbursements	<hr/>	<hr/>	<hr/>	<hr/>
	13,885	622	0	14,507
<b>Other Financing Receipts / (Disbursements):</b>				
Proceeds from Sale of Public Debt:				
Other Debt Proceeds		8,169		8,169
Other Financing Uses		(4,420)		(4,420)
	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts / (Disbursements)	0	3,749	0	3,749
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	13,885	4,371	0	18,256
Fund Cash Balances, January 1	<hr/>	<hr/>	<hr/>	<hr/>
	10,038	205,758	58	215,854
<b>Fund Cash Balances, December 31</b>	<hr/> <b>\$23,923</b>	<hr/> <b>\$210,129</b>	<hr/> <b>\$58</b>	<hr/> <b>\$234,110</b>

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$310,125	\$0	\$310,125
Total Operating Cash Receipts	<u>310,125</u>	<u>0</u>	<u>310,125</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	62,474		62,474
Employee Fringe Benefits	13,309		13,309
Contractual Services	561,538		561,538
Supplies and Materials	38,871		38,871
Other	1,089		1,089
Total Operating Cash Disbursements	<u>677,281</u>	<u>0</u>	<u>677,281</u>
Operating (Loss)	<u>(367,156)</u>	<u>0</u>	<u>(367,156)</u>
<b>Non-Operating Cash Receipts:</b>			
Intergovernmental	17,980		17,980
Other Debt Proceeds	546,688		546,688
Miscellaneous Receipts	506		506
Other Non-Operating Cash Receipts		34,726	34,726
Total Non-Operating Cash Receipts	<u>565,174</u>	<u>34,726</u>	<u>599,900</u>
<b>Non-Operating Cash Disbursements:</b>			
Capital Outlay	24,367		24,367
Redemption of Principal	126,662		126,662
Interest and Other Fiscal Charges	21,627		21,627
Other Non-Operating Cash Disbursements		55,471	55,471
Total Non-Operating Cash Disbursements	<u>172,656</u>	<u>55,471</u>	<u>228,127</u>
Net Receipts Over/(Under) Disbursements	25,362	(20,745)	4,617
Fund Cash Balances, January 1	<u>192,547</u>	<u>25,315</u>	<u>217,862</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$217,909</u></b>	<b><u>\$4,570</u></b>	<b><u>\$222,479</u></b>

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Gratis, Preble County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, emergency medical services, fire services, and police services.

The Village participates in the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Note 9 to the financial statements provides additional information for this entity.

The Village's management believes these financial statements present all activities for which the Village is financially accountable, except the financial statements do not include debt service funds external custodians maintain. Note 7 to the financial statements describe these assets.

**B. Accounting Basis**

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

**C. Cash and Deposits**

Village funds are pooled in checking accounts with local commercial banks.

**D. Fund Accounting**

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

**1. General Fund**

The General Fund reports all financial resources except those required to be accounted for in another fund.

**2. Special Revenue Funds**

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**1. Summary of Significant Accounting Policies (Continued)**

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 real estate and personal property taxes and contracts with Gratis Township to provide for the protection of area citizens.

EMS Fund – This fund receives real estate and personal property taxes and contracts with Gratis Township and the Village of West Elkton to provide for the protection of area citizens.

**3. Capital Project Fund**

This fund accounts for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project Fund:

Capital Improvement Fund – This fund was used to construct a capital improvement.

**4. Enterprise Funds**

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

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

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

**8. Fiduciary Fund (Agency Fund)**

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

Mayor's Court Fund – This fund is used to account for the collection and distribution of court fines and fees.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**1. Summary of Significant Accounting Policies (Continued)**

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

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

**F. Property, Plant, and Equipment**

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**G. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**2. Restatement of Prior Year Fund Balance**

Due to the omission of Agency Fund activity on the 2005 financial statements, it was necessary to restate the fund balance for the Agency Fund at December 31, 2005 by \$25,315.

**3. Equity in Pooled Cash and Deposits**

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

	<u>2007</u>	<u>2006</u>
Demand deposits	<u>\$489,642</u>	<u>\$456,589</u>

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

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**4. Budgetary Activity**

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

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$125,548	\$135,794	\$10,246
Special Revenue	280,595	371,088	90,493
Capital Projects	0	137,073	137,073
Enterprise	371,496	656,347	284,851
Total	\$777,639	\$1,300,302	\$522,663

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$149,640	\$154,460	(\$4,820)
Special Revenue	476,986	328,772	148,214
Capital Projects	58	168,425	(168,367)
Enterprise	529,296	684,114	(154,818)
Total	\$1,155,980	\$1,335,771	(\$179,791)

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$115,407	\$125,255	\$9,848
Special Revenue	255,261	302,832	47,571
Capital Projects	0	0	0
Enterprise	312,174	875,298	563,124
Total	\$682,842	\$1,303,385	\$620,543

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$112,336	\$111,370	\$966
Special Revenue	416,415	298,461	117,954
Capital Projects	58	0	58
Enterprise	449,187	849,936	(400,749)
Total	\$977,996	\$1,259,767	(\$281,771)

Contrary to Ohio law, the Village did not establish a special fund to account for CDBG monies and OPWC monies disbursed on behalf of the Village, nor did they recognize this on-behalf activity.



**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**4. Budgetary Activity (Continued)**

Also, contrary to Ohio law, the Village did not obtain amended certificates when the deficiency reduced available resources below the current level of appropriations for the following funds: Street Construction, Maintenance, and Repair Fund, State Highway Fund, and Gratis Beautification Fund for the period ending December 31, 2007, and the Trash Operating Fund and Water Debt Service Fund for the period ending December 31, 2006.

Also, contrary to Ohio law, budgetary expenditures exceeded appropriation authority in the General Fund, Capital Improvement Fund, Other Capital Projects Fund, Water Operating Fund, and Water Debt Service Fund for the period ending December 31, 2007. Budgetary expenditures exceeded appropriation authority in the Street Construction, Maintenance, and Repair Fund, Gratis Beautification Fund, and Water Operating Fund for the period ending December 31, 2006.

**5. Property Tax**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**6. Debt**

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Sewer Revenue Bonds	\$ 307,000	5.00%
Water Revenue Bonds	60,000	Varies
Water Tower Land Loan	5,000	4.50%
Ohio Water Development Authority Loan	714,452	4.42%
Water and Sewer Meters Loan	21,367	4.00%
Truck Loan	20,113	5.49%
Total	\$ 1,127,932	

The Sewer Revenue Bonds relate to mortgage revenue bonds issued in 1980. The bonds will be repaid in annual installments over 40 years. The bonds are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

The Water Revenue Bonds relate to mortgage revenue bonds issued in 1998 to fund improvements to the Village's water system. The bonds will be repaid in semi-annual installments over 15 years.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**6. Debt (Continued)**

The bonds are collateralized by water and sewer receipts. The Village has agreed to set utility rates sufficient to cover debt service requirements.

The Water Tower Land Loan was obtained in 2003 to purchase land for the water tower. The loan is to be repaid in ten semi-annual installments of \$2,500, excluding interest. The loan is collateralized by a mortgage on the water tower land.

The Ohio Water Development Authority (OWDA) loan was obtained in 2004 in the amount of \$768,390 for water system improvements. As of December 31, 2007, \$727,113 had been drawn. A final amortization schedule will be established upon completion of the project. The loan is collateralized by water and sewer receipts. The Village had agreed to set water rates sufficient to cover bond payment requirements.

The Water and Sewer Meter Loan was obtained in 2004 to purchase touch read water and sewer meters. The loan is to be repaid in annual installment payments of \$931.42 over 5 years. The loan is collateralized by water and sewer receipts.

The truck loan was obtained in November 2006 for \$24,505 for the purpose of acquiring a new truck. The loan is to be repaid in annual installment payments of \$5,738 over 5 years. The loan is collateralized by the truck.

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

Year ending December 31:	Sewer Revenue Bonds	Water Revenue Bonds	Water Tower Land Loan
2008	\$32,350	\$13,305	\$5,169
2009	32,500	12,775	
2010	32,600	12,235	
2011	32,650	11,685	
2012	32,650	11,125	
2013 – 2017	164,350	10,563	
2018-2020	98,050		
Total	<u>\$425,150</u>	<u>\$71,688</u>	<u>\$5,169</u>

Year ending December 31:	Water & Sewer Meters Loan	Truck Loan
2008	\$10,246	\$5,738
2009	11,177	5,738
2010		5,738
2011		5,738
2012		
2013-2017		
Total	<u>\$21,423</u>	<u>\$22,952</u>

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**7. Debt Service Trust Funds**

The 1998 Water Revenue bond agreement required the Village to establish a debt service fund to be maintained by a custodian bank. The Village has established this fund. At December 31, 2007, the custodian held \$11,876 in Village assets. The accompanying financial statements do not include these assets or the related receipts and disbursements.

**8. Retirement Systems**

**A. Ohio Public Employee Retirement System**

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

The Ohio Revised Code also prescribes contribution rates. For 2007 and 2006 OPERS members contributed 9.5 and 9%, respectively, of their gross salaries and the Village contributed an amount equaling 13.85 and 13.7%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

**B. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the OPERS have an option to choose Social Security. As of December 31, 2007, seventeen employees of the Village have elected Social Security. The employees' liability is 6.2 percent of wages paid.

**9. Risk Management**

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

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

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

Casualty Coverage

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year.

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**9. Risk Management (Continued)**

For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

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

Property Coverage

Beginning in 2005, APEEP established a risk-sharing property program. Under the program, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. This amount was increased to \$300,000 in 2007. For 2007, APEEP reinsures members for specific losses exceeding \$100,000 up to \$300,000 per occurrence, subject to an annual aggregate loss payment. For 2006, APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000 in 2006, or \$100,000 and \$300,000 in 2007, Travelers will then reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2007 was \$2,014,548.

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

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

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Assets	\$37,560,071	\$36,123,194
Liabilities	<u>(17,340,825)</u>	<u>(16,738,904)</u>
Net Assets	<u>\$20,219,246</u>	<u>\$19,384,290</u>

**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

**9. Risk Management (Continued)**

At December 31, 2007 and 2006, respectively, the liabilities above include approximately \$15.9 million and \$15.0 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$15.0 million and \$14.4 million of unpaid claims to be billed to approximately 443 member governments in the future, as of December 31, 2007 and 2006, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$20,000. This payable includes the subsequent year's contribution due if the Village terminates participation, as described in the last paragraph below.

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

<u>Contributions to PEP</u>	
2005	\$16,536
2006	\$15,797
2007	\$17,487

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

**10. Contingent Liabilities**

The Village is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the Village's financial condition.

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# Mary Taylor, CPA

Auditor of State

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

Village of Gratis  
Preble County  
404 Harrison Street  
PO Box 574  
Gratis, Ohio 45330

To the Village Council:

We have audited the financial statements of the Village of Gratis, Preble County, Ohio (the Village), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated September 18, 2008, 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 also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. 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's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal controls over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 through 2007-005, and 2007-007.

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

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 internal control deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we believe finding numbers 2007-002, 2007-003, 2007-005, and 2007-007 are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated September 18, 2008.

#### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2007-003, 2007-006, and 2007-008.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 18, 2008.

We intend this report solely for the information and use of the audit committee, management, and Village Council. We intend it for no one other than these specified parties.



**Mary Taylor, CPA**  
Auditor of State

September 18, 2008



**VILLAGE OF GRATIS  
PREBLE COUNTY**

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

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING NUMBER 2007-001**

**Significant Deficiency**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed. Management should also ensure the collection and compilation of the data needed for the timely preparation of financial statements, as well as verifying the existence and valuation of assets and liabilities and periodically reconciling them to the accounting records. The Village does not have proper controls over emergency medical services (EMS) billing revenue as evidenced by the following:

In addition to providing EMS services to residents of the Village of Gratis, the Village also provides EMS services to the Village of West Elkton and Gratis Township. A third party administrator (TPA) bills the appropriate parties for these services and receives and processes the collections. The TPA forwards on a quarterly basis the proceeds of the collections for services provided to the three entities to the Village of Gratis. The Village of Gratis then records revenue for the portion of the EMS collections related to services provided to Village of Gratis residents, and writes checks to the Village of West Elkton and Gratis Township for the portion of the EMS collections that related to those entities. The Village of West Elkton and Gratis Township then issue checks back to the Village of Gratis for the original amount that the Village of Gratis issued to them. Also, the Village did not record TPA service charges.

This process causes a delay in recording Village receipts, causes Village receipts to be recorded in the wrong fiscal year, increases the risk that the Village may not receive receipts for contract service it has provided, and needlessly increases the complexity of the accounting and record keeping.

Audit adjustments were required to increase 2006 Charges for Services revenue by \$14,033 and Public Safety by \$1,236. Audit adjustments were required to increase 2007 Charges for Services revenue by \$2,304 and Public Safety expenditures by \$391.

We recommend that the Village improve controls over the EMS receipts by depositing and recording the entire amount of EMS receipts and related fees upon receipt of the check and account information from the TPA.

**FINDING NUMBER 2007-002**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village lacks management oversight in the posting of receipts. This lack of oversight is illustrated by the following:

**FINDING NUMBER 2007-002**  
**(Continued)**

- For 2007, Public utility reimbursements of \$852 were posted to General Fund Miscellaneous Revenue rather than Intergovernmental Revenue. Franchise fees of \$3,097 were posted to Miscellaneous Revenue rather than Fines, Licenses, Permits. \$523 from the sale of assets was posted to Miscellaneous Revenue.
- For 2006, the First Half Homestead and Rollback settlement of \$1,404 for the General Fund was posted to Taxes rather than Intergovernmental Revenue. Public utility reimbursements of \$988 for the General Fund were posted to Miscellaneous Revenue rather than Intergovernmental Revenue. Mayor's Court receipts and franchise fees totaling \$17,972 were posted to Miscellaneous Revenue rather than Fines, Licenses, and Permits. Mayor's Court activity totaling \$15,000 was posted to General Fund Miscellaneous Revenue rather than to Fines, Licenses, Permits. Mayor's Court activity totaling \$12,000 was posted to Agency Fund Miscellaneous Revenue rather than General Fund Fines, Licenses, Permits.
- For 2007, Street Fund auto license disbursements of \$9,656 and permissive tax disbursements of \$5,182 were posted to Taxes rather than Intergovernmental Revenue. For 2006, Street Fund auto license disbursements of \$10,285 and permissive tax disbursements of \$5,511 were posted to Taxes rather than Intergovernmental Revenue. For 2006, the State portion of the FEMA grant of \$216 was posted to the FEMA Fund rather than the Street Fund.
- For 2007, State Highway auto license disbursements of \$783 were posted to Taxes rather than Intergovernmental Revenue. For 2006, State Highway auto license disbursements of \$834 were posted to Taxes rather than Intergovernmental Revenue.
- For 2007, Public Utility reimbursements for the Fire Fund of \$621 were posted to Miscellaneous Revenue rather than Intergovernmental Revenue. For 2006, personal property replacement disbursements for the Fire Fund of \$5 were posted to Taxes rather than Intergovernmental Revenue. The First Half Homestead and Rollback settlement of \$908 was posted to Taxes rather than Intergovernmental Revenue. Public Utility reimbursements for the Fire Fund of \$780 were posted to Miscellaneous Revenue rather than Intergovernmental Revenue.
- For 2007, Public Utility reimbursements for the Ambulance Fund of \$449 were posted to Miscellaneous Revenue rather than Intergovernmental Revenue. For 2006, the First Half Homestead and Rollback settlement of \$706 was posted to Taxes rather than Intergovernmental Revenue. Public Utility reimbursements for the Ambulance Fund of \$520 were posted to Miscellaneous Revenue rather than Intergovernmental Revenue.
- For 2007, the Village posted \$708,319 to Capital Projects Intergovernmental Revenue and General Government Expenditures. There was no support maintained for this on-behalf payment. Upon review of documentation of Ohio Public Works Commission, Ohio Water Development Authority, and Preble County Community Development Block Grant documentation, this amount was not disbursed on-behalf of the Village.
- For 2007, utility receipts from property tax assessments were not properly posted. \$222 was posted to the Water Fund that should have been posted to the Sewer Fund.
- For 2006, \$292 was posted to Agency Fund Miscellaneous Revenue rather than Trash Fund Charges for Services.

**FINDING NUMBER 2007-002  
(Continued)**

Adjustments were posted to the financial statements to correct the above classifications.

The lack of proper management oversight could result in material misstatement relating to financial data. To improve record keeping and accountability of receipts we recommend that all receipts be posted properly. For guidance the Village should utilize the Village Officers' Handbook.

**FINDING NUMBER 2007-003**

**Material Noncompliance/Material Weakness**

**Ohio Revised Code, § 5705.09(F)**, requires the Village to establish a special fund for each class of revenue derived from a source other than the general property tax, which the law requires to be used for a particular purpose. Upon establishing a fund, estimated receipts should be certified to the County Auditor as available for expenditure and anticipated expenditures should be included in the Village's appropriations.

As further discussed in Auditor of State Bulletin 2000-008, the Clerk shall record the appropriations in accordance with the terms and conditions of the on-behalf grant or project agreement. In addition, prior to the Village recording the appropriations, Ohio Revised Code Section 5705.40 requires the legislative authority to pass a resolution amending its appropriation measure.

The Village did not record the Community Development Block Grant (CDBG) monies disbursed on behalf of the Village totaling \$79,813 for 2007 and \$17,980 for 2006. The Village did not record the Ohio Public Works Commission (OPWC) monies disbursed on behalf of the Village totaling \$137,073 for 2007. The grant money also was not properly included in the appropriations by the Village Council. The accompanying financial statements have been adjusted to reflect the activity. We recommend that the Village following the accounting treatment as prescribed in Auditor of State Bulletin 2000-008 for on-behalf grants and loans.

**FINDING NUMBER 2007-004**

**Significant Deficiency**

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

The Village lacks management oversight for Mayor's Court activity. This lack of oversight is illustrated by the following:

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

- Per review of the January 2006 monthly report and the check register, the Mayor's Court overpaid the Treasurer of State by \$264. During the prior audit, the Mayor's Court overpaid the Treasurer of State by \$312. There is no evidence this money was refunded to the Mayor's Court.
- Per review of the monthly reports and the check register, from the inception of the Mayor's Court until September 2007, the Mayor's Court overpaid the Village \$940 for fines, forfeitures and court costs.
- We were unable to find documentation supporting the payment of an individual's fine. Per inquiry of the Fiscal Officer, the defendant's case is going to be dismissed. However, there is no supporting documentation stating this conclusion.
- We were unable to locate tickets 1101 and 1114.

The lack of proper management oversight could result in inaccurate records and misappropriation of funds. To improve record keeping and accountability of Mayor's Court activity, we recommend that receipts be written for all monies received. The amount of the receipt should match the amount deposited. All receipts should be properly posted to a cash book and the monthly receipt reports. Receipts posted to the cash book and monthly receipt reports should be reviewed for accuracy. All tickets should be maintained and posted to the docket. The docket should be reviewed for completeness and accuracy. All required information (ticket number, disposition, amount of fine, receipt information, as applicable) should be posted to the docket in a timely manner.

**FINDING NUMBER 2007-005**

**Material Weakness**

When designing the public office's system of internal control and the specific control activities, management should consider verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records and ensuring the collection and compilation of the data needed for timely and accurate preparation of financial statements.

The Village lacks management oversight in the posting of debt and expenditure activity. This lack of oversight is illustrated by the following:

- The proceeds and capital expenditures for a loan of \$7,620 for a police cruiser were not recorded on the Village's financial statements. The proceeds and capital expenditures for a loan of \$24,505 for a truck were not recorded on the Village's financial statements.
- For 2006, proceeds of OWDA debt and the related expenditures of \$501,176 were not recorded on the Village's financial statements. For 2006, loan proceeds of \$25,276 for OWDA debt were posted to Miscellaneous Revenue rather than Proceeds of Debt. For 2007, proceeds of OWDA debt and the related expenditures of \$191,185 were not recorded on the Village's financial statements.

**FINDING NUMBER 2007-005  
 (Continued)**

- For 2006, debt payments were not properly allocated between Principal and Interest. An additional \$514 was posted to Interest that was for Principal debt payments. For 2007, debt payments were not properly allocated between Principal and Interest. An additional \$9,364 was posted to Principal that was for Interest debt payments. In addition, a payment of \$275 was posted to Sewer Fund Debt Service-Principal rather than Water Fund Debt Service-Interest.
- OWDA loan proceeds were posted to Miscellaneous Revenue rather than Proceeds of Debt.
- The Village posted expenditures to Capital Outlay that did not meet the definition of Capital Outlay expenditures. The amounts erroneously posted to Capital Outlay for 2006 were: General Fund-\$14,855, Street Fund-\$2,002, State Highway Fund- \$33, Fire Fund- \$7,204, EMS Fund-\$7,574, Water Fund-\$114, and Sewer Fund-\$2,370. The amounts erroneously posted to Capital Outlay for 2007 were: General Fund-\$5,248, Street Fund-\$133, Community Center Fund-\$380, Fire Fund-\$2,865, EMS Fund-\$2,092, Water Fund-\$133, and Sewer Fund-\$133.

Adjustments were posted to the financial statements to correct the above misstatements.

Failure to properly record and post debt and expenditure activity may result in misleading financial statements and incorrect fund balances. Any new debt incurred should be recognized as proceeds of debt for the gross amount received. Any payments made on behalf of the Village should be recorded as expenditures. Any payments posted to Capital Outlay should meet the definition of a Capital Outlay expenditure. We recommend the Village properly post all debt and expenditure activity.

**FINDING NUMBER 2007-006**

**Material Noncompliance**

**Ohio Revised Code, § 5705.36(A)(4)**, states that upon a determination by the fiscal officer of a subdivision that the revenue to be collected by the subdivision will be less than the amount included in an official certificate and that the amount of the deficiency will reduce available resources below the level of current appropriations, the fiscal officer shall certify the amount of the deficiency to the commission, and the commission shall certify an amended certificate reflecting the deficiency.

Estimated receipts exceeded actual receipts in the funds noted below. Furthermore, appropriations exceeded the available fund balance in these funds.

<b>Fund</b>	<b>Date</b>	<b>Appropriations</b>	<b>Available Resources</b>	<b>Variance</b>
Street CMR Fund	12/31/07	\$89,684	\$76,301	(\$13,383)
State Highway Fund	12/31/07	8,200	7,811	(389)
Gratis Beautification Fund	12/31/07	2,300	1,904	(396)
Trash Operating Fund	12/31/06	48,100	46,749	(1,351)
Water Debt Service Fund	12/31/06	15,500	12,115	(3,385)

Failure to properly obtain amended certificates when the amount of deficiency will reduce available resources below the current level of appropriation can result in overspending and negative fund balances. We recommend the Village monitor estimated and actual receipts and obtain amendments when required.

**FINDING NUMBER 2007-007**

**Material Weakness**

Estimated receipts were not posted to the system until July for 2006. Estimated receipts were not posted to the system until June in 2007. For 2007, estimated receipts were not properly posted to the system as follows:

<b>Fund</b>	<b>Estimated Receipts</b>	<b>Amount Posted to System</b>	<b>Variance</b>
Gratis Beautification Fund	\$1,500	\$1,000	\$500
Water Debt Service Fund	11,510	11,500	10
Water Operating Fund	141,718	137,718	4,000
Trash Operating Fund	46,500	46,000	500
Sewer Operating Fund	109,392	109,156	236

Appropriations were not properly posted to the accounting system as follows:

<b>Fund</b>	<b>Year</b>	<b>Appropriation Resolution</b>	<b>Appropriations per System</b>	<b>Variance</b>
Other Capital Projects Fund	2007	\$0	\$739,671	(\$739,671)
General Fund	2006	111,915	125,336	(13,421)
Street CMR Fund	2006	81,804	87,908	(6,104)
EMS Fund	2006	210,499	212,987	(2,488)
Gratis Beautification Fund	2006	0	5,000	(5,000)

Failure to properly post budgetary documents to the Village's accounting system could result in overspending of funds and negative cash balances and an inability to monitor activity. We recommend the Village properly post budgetary amounts to the accounting system.

**FINDING NUMBER 2007-008**

**Material Noncompliance**

**Ohio Rev. Code, § 5705.41(B)**, states no taxing authority shall make any expenditure of money unless it has been appropriated.

Expenditures exceeded appropriations as noted below:

<b>Fund</b>	<b>Date</b>	<b>Expenditures</b>	<b>Appropriations</b>	<b>Variance</b>
General Fund	12/31/07	\$154,460	\$149,640	(\$4,820)
Capital Improvement Fund	12/31/07	137,073	58	(137,015)
Other Capital Projects Fund	12/31/07	31,352	0	(31,352)
Water Operating Fund	12/31/07	475,200	215,375	(259,825)
Water Debt Service Fund	12/31/07	12,196	11,921	(275)
Street CMR Fund	12/31/06	84,910	82,225	(2,685)
Gratis Beautification Fund	12/31/06	3,777	0	(3,777)
Water Operating Fund	12/31/06	645,395	136,307	(509,088)

**FINDING NUMBER 2007-008  
(Continued)**

Failure to modify appropriations may result in negative fund balances. We recommend the Village take steps to ensure appropriations are being properly monitored and recorded in the ledgers. No expenditure should be made unless funds have been sufficiently appropriated.

**We did not receive a response from Officials on the findings reported above.**







**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF GRATIS**

**PREBLE 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 7, 2008**