

VILLAGE OF GNADENHUTTEN

TUSCARAWAS COUNTY

INDEPENDENT ACCOUNTANTS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND DECEMBER 31, 2010

Varney, Fink & Associates, Inc.
Certified Public Accountants



Dave Yost • Auditor of State

Village Council
Village of Gnadenhutten
P.O. Box 129
Gnadenhutten, Ohio 44629

We have reviewed the *Independent Accountants' Report* of the Village of Gnadenhutten, Tuscarawas County, prepared by Varney, Fink & Associates, Inc., for the audit period January 1, 2010 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Gnadenhutten is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

December 10, 2012

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VILLAGE OF GNADENHUTTEN

TUSCARAWAS COUNTY
FOR THE YEARS ENDED
DECEMBER 31, 2011 AND DECEMBER 31, 2010

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INDEPENDENT ACCOUNTANTS' REPORT

Village of Gnadenhutten
Tuscarawas County
P.O. Box 129
Gnadenhutten, OH 44629

To the Village Council:

We have audited the accompanying financial statements of the Village of Gnadenhutten, Tuscarawas County, (the Village) as of and for the years ended December 31, 2011 and 2010. 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 our audit provides a reasonable basis for our opinion.

As described more fully in Note 1B, 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.

INDEPENDENT ACCOUNTANTS' REPORT (continued)

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, 2011 and 2010 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, 2011 and 2010, 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 as of December 31, 2011 and 2010 of the Village of Gnadenhutten, Tuscarawas County, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1B describes.

As described in Note 1F, during 2010 the Village of Gnadenhutten adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2012, 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.

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified public Accountants

August 31, 2012

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$68,453	\$15,873	\$0	\$84,326
Municipal Income Tax	0	295,049	0	295,049
Intergovernmental	62,820	95,460	0	158,280
Charges for Services	52,558	32,280	0	84,838
Fines, Licenses and Permits	1,044	0	0	1,044
Earnings on Investments	1,792	12	0	1,804
Miscellaneous	26,828	3,280	0	30,108
<i>Total Cash Receipts</i>	<u>213,495</u>	<u>441,954</u>	<u>0</u>	<u>655,449</u>
Cash Disbursements				
Current:				
Security of Persons and Property	77,535	129,585	0	207,120
Public Health Services	679	329	0	1,008
Leisure Time Activities	10,228	0	0	10,228
Community Environment	924	0	0	924
Basic Utility Services	72,563	0	0	72,563
Transportation	136,472	73,794	0	210,266
General Government	73,857	24,564	0	98,421
Capital Outlay	68,054	0	0	68,054
Debt Service:				
Principal Retirement	18,844	18,481	0	37,325
Interest and Fiscal Charges	1,956	2,019	0	3,975
<i>Total Cash Disbursements</i>	<u>461,112</u>	<u>248,772</u>	<u>0</u>	<u>709,884</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(247,617)</u>	<u>193,182</u>	<u>0</u>	<u>(54,435)</u>
Other Financing Receipts (Disbursements)				
Transfers-In	144,321	90,102	36,077	270,500
Transfers-Out	0	(270,500)	0	(270,500)
Sale of Capital Assets	446	0	0	446
<i>Total Other Financing Receipts (Disbursements)</i>	<u>144,767</u>	<u>(180,398)</u>	<u>36,077</u>	<u>446</u>
<i>Net Change in Fund Cash Balances</i>	<u>(102,850)</u>	<u>12,784</u>	<u>36,077</u>	<u>(53,989)</u>
<i>Fund Cash Balances, January 1</i>	<u>141,012</u>	<u>19,139</u>	<u>4,061</u>	<u>164,212</u>
Fund Cash Balances, December 31				
Restricted	0	34,329	0	34,329
Assigned	0	0	40,138	40,138
Unassigned (Deficit)	38,162	(2,406)	0	35,756
<i>Fund Cash Balances, December 31</i>	<u>\$38,162</u>	<u>\$31,923</u>	<u>\$40,138</u>	<u>\$110,223</u>

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

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Enterprise
Operating Cash Receipts	
Charges for Services	\$502,059
Miscellaneous	4,266
	506,325
<i>Total Operating Cash Receipts</i>	<i>506,325</i>
Operating Cash Disbursements	
Personal Services	69,806
Contractual Services	99,968
Supplies and Materials	74,859
	244,633
<i>Total Operating Cash Disbursements</i>	<i>244,633</i>
<i>Operating Income</i>	<i>261,692</i>
Non-Operating (Disbursements)	
Capital Outlay	(13,189)
Principal Retirement	(188,880)
Interest and Other Fiscal Charges	(4,190)
	(206,259)
<i>Total Non-Operating (Disbursements)</i>	<i>(206,259)</i>
<i>Net Change in Fund Cash Balance</i>	<i>55,433</i>
<i>Fund Cash Balance, January 1</i>	<i>239,854</i>
<i>Fund Cash Balance, December 31</i>	<i>\$295,287</i>

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

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$69,596	\$16,078	\$0	\$85,674
Municipal Income Tax	0	259,628	0	259,628
Intergovernmental	71,906	86,387	0	158,293
Charges for Services	53,166	26,699	0	79,865
Fines, Licenses and Permits	627	0	0	627
Earnings on Investments	3,146	7	0	3,153
Miscellaneous	28,761	1,949	0	30,710
<i>Total Cash Receipts</i>	<u>227,202</u>	<u>390,748</u>	<u>0</u>	<u>617,950</u>
Cash Disbursements				
Current:				
Security of Persons and Property	20,649	150,060	0	170,709
Public Health Services	673	326	0	999
Leisure Time Activities	11,373	0	0	11,373
Community Environment	924	0	0	924
Basic Utility Services	73,749	0	0	73,749
Transportation	143,141	83,696	0	226,837
General Government	86,799	28,594	0	115,393
Capital Outlay	51,400	0	36,936	88,336
Debt Service:				
Principal Retirement	16,110	18,658	0	34,768
Interest and Fiscal Charges	2,490	1,842	0	4,332
<i>Total Cash Disbursements</i>	<u>407,308</u>	<u>283,176</u>	<u>36,936</u>	<u>727,420</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(180,106)</u>	<u>107,572</u>	<u>(36,936)</u>	<u>(109,470)</u>
Other Financing Receipts (Disbursements)				
Loan Proceeds	40,000	0	0	40,000
Transfers-In	122,565	76,593	30,642	229,800
Transfers-Out	0	(229,800)	0	(229,800)
Sale of Capital Assets	7,585	0	0	7,585
<i>Total Other Financing Receipts (Disbursements)</i>	<u>170,150</u>	<u>(153,207)</u>	<u>30,642</u>	<u>47,585</u>
<i>Net Change in Fund Cash Balances</i>	<u>(9,956)</u>	<u>(45,635)</u>	<u>(6,294)</u>	<u>(61,885)</u>
<i>Fund Cash Balances, January 1</i>	<u>150,968</u>	<u>64,774</u>	<u>10,355</u>	<u>226,097</u>
Fund Cash Balances, December 31				
Restricted	0	19,308	0	19,308
Assigned	0	0	4,061	4,061
Unassigned (Deficit)	141,012	(169)	0	140,843
<i>Fund Cash Balances, December 31</i>	<u>\$141,012</u>	<u>\$19,139</u>	<u>\$4,061</u>	<u>\$164,212</u>

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

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	\$481,404
Miscellaneous	1,646
	<u>483,050</u>
<i>Total Operating Cash Receipts</i>	<u>483,050</u>
Operating Cash Disbursements	
Personal Services	67,081
Contractual Services	81,057
Supplies and Materials	85,267
	<u>233,405</u>
<i>Total Operating Cash Disbursements</i>	<u>233,405</u>
<i>Operating Income</i>	<u>249,645</u>
Non-Operating (Disbursements)	
Capital Outlay	(36,899)
Principal Retirement	(188,700)
Interest and Other Fiscal Charges	(4,370)
	<u>(229,969)</u>
<i>Total Non-Operating (Disbursements)</i>	<u>(229,969)</u>
<i>Net Change in Fund Cash Balance</i>	19,676
<i>Fund Cash Balance, January 1</i>	<u>220,178</u>
<i>Fund Cash Balance, December 31</i>	<u><u>\$239,854</u></u>

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

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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 Gnadenhutten, Tuscarawas County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, park operations, road maintenance and repair, and police and fire services.

The Village participates in three jointly governed organizations and the Public Entities Pool of Ohio public entity risk pool. Notes 8 and 9 to the financial statements provide additional information for these entities. These organizations are:

Jointly Governed Organizations:
Gnadenhutten – Clay Union Cemetery
Community Improvement Corporation of Tuscarawas County
Tuscarawas County Regional Planning Commission

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The 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. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

Money market mutual funds are recorded at share values the mutual funds report.

D. Fund Accounting

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

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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:

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

Police Fund – This fund receives income tax money for providing police services.

Fire Levy Fund – This fund receives property tax levy money for providing fire and EMS services.

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 receives income tax money for capital projects.

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.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

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. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled and reappropriated in the subsequent year.

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Village classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. 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.

H. Accumulated Leave

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

2. Equity in Pooled Deposits and Investments

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

	<u>2011</u>	<u>2010</u>
Certificates of deposits	\$163,470	\$162,680
Other time deposits (savings and NOW accounts)	<u>242,040</u>	<u>241,386</u>
Total deposits	<u>\$405,510</u>	<u>\$404,066</u>

Deposits:

Deposits are insured by the Federal Depository Insurance Corporation.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

Investments:

The Village had no investments in 2011 and 2010.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$349,300	\$358,262	\$8,962
Special Revenue	489,900	532,056	42,156
Capital Projects	32,000	36,077	4,077
Enterprise	498,400	506,325	7,925
Total	<u>\$1,369,600</u>	<u>\$1,432,720</u>	<u>\$63,120</u>

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$356,000	\$461,112	(\$105,112)
Special Revenue	430,000	519,272	(89,272)
Capital Projects	35,000	0	35,000
Enterprise	443,126	450,892	(7,766)
Total	<u>\$1,264,126</u>	<u>\$1,431,276</u>	<u>(\$167,150)</u>

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$300,200	\$397,352	\$97,152
Special Revenue	385,000	467,341	82,341
Capital Projects	35,000	30,642	(4,358)
Enterprise	476,000	483,050	7,050
Total	<u>\$1,196,200</u>	<u>\$1,378,385</u>	<u>\$182,185</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$367,953	\$407,308	(\$39,355)
Special Revenue	450,000	512,976	(62,976)
Capital Projects	35,000	36,936	(1,936)
Enterprise	449,000	463,374	(14,374)
Total	<u>\$1,301,953</u>	<u>\$1,420,594</u>	<u>(\$118,641)</u>

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

Contrary to Ohio law, budgetary expenditures exceeded appropriation authority; in the General fund by \$105,265, Street Construction Maintenance and Repair fund by \$15,294, Fire Levy fund by \$13,754, Municipal Income Tax Levy fund by \$93,917, Sewer fund by \$22,628 and the Sewer Upgrade fund by \$792 in 2011. Budgetary expenditures exceeded appropriation authority in the General fund by \$39,743, Street Construction Maintenance and Repair fund by \$20,996, Municipal Income Tax Levy fund by \$59,306, Capital Improvements fund by \$1,937 and the Water fund by \$33,164 in 2010.

Contrary to Ohio law, at December 31, 2011 the Fire Levy fund had a cash deficit balance of \$2,194 and at December 31, 2010 the Municipal Income Tax fund had a cash deficit balance of \$170.

4. 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.

5. Local Income Tax

The Village levies a municipal income tax of 1.5 percent 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 taxpayers pay estimated taxes quarterly and file a declaration annually.

53.3 percent of net income tax collections is designated to support general Village operations; 33.4 percent is designated to support the Village police department; and 13.3 percent is designated to support capital projects of the Village.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

6. Debt

Debt outstanding at December 31, 2011 was as follows:

	Principal	Interest Rate
Bank Note (Ambulance)	\$32,063	4.25%
Bank Note (Garbage Truck/Packer)	42,037	4.25%
Bank Note (Truck Snow Plow/Salt Spreader)	24,851	4.25%
OPWC Loan (Waterline Replacement)	81,739	0.00%
OWDA Loan 3185 (Waterline Replacement)	66,045	6.13%
OWDA Loan 4157 (WWTP Improvements)	2,370,489	0.00%
Total	\$2,617,224	

The bank notes were obtained to purchase an ambulance, a garbage truck/packer and a truck snow plow/salt spreader. The notes are secured by the ambulance, garbage truck/packer, and truck snow plow/salt spreader, respectively.

The OPWC loan 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 and a waterline replacement. OWDA loan #4159 includes \$6,439 of capitalized interest. The loans are collateralized by user fees.

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

	Bank Notes	OPWC Loan	OWDA Loans
Year ending December 31:			
2012	\$44,400	\$10,217	\$182,853
2013	44,277	10,217	182,853
2014	15,528	10,217	182,853
2015	0	10,217	182,853
2016	0	10,217	182,853
2017-2021	0	30,654	914,267
2022-2025	0	0	639,987
Total	\$104,205	\$81,739	\$2,468,519

7. Retirement Systems

The Village's certified Fire Fighters and full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OP&F participants contributed 10% of their wages. For 2011 and 2010, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages and 24% of full-time fire fighters' wages, respectively. For 2011 and 2010, OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

8. 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 Workers' 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. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (YORK), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance series for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member Villages pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this agreement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2010, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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, 2010 and 2009 (the latest information available):

	<u>2010</u>	<u>2009</u>
Assets	\$34,952,010	\$36,374,898
Liabilities	<u>(14,320,812)</u>	<u>(15,256,862)</u>
Net Assets	<u>\$20,631,198</u>	<u>\$21,118,036</u>

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

At December 31, 2010 and 2009, respectively, the liabilities above include approximately \$12.9 million and \$14.1 million estimated incurred claims payable. The assets above also include approximately \$12.4 million and \$13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Village's share of these unpaid claims collectible in future years is approximately \$18,219.

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>	
<u>2011</u>	<u>2010</u>
\$26,521	\$24,620

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all causality claims and claim expenses become the soled responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

9. Jointly Governed Organizations

A. Gnadenhutten-Clay Union Cemetery (the Union)

The Cemetery is a jointly governed organization under Ohio Revised Code § 759.27, and is directed by an appointed three-member board. The Village of Gnadenhutten and Clay Township each appoint one member to the board. The third member is a citizen appointed by the other two members. The Village funding provides for burial services, operations and maintenance of the Cemetery. The Cemetery reimburses the Village for funding provided. The Village received \$14,389 for the past services provided during 2009 and \$13,508 during 2010. The Village had an account receivable from the Cemetery at December 31, 2011 in the amount of \$11,100.

B. Community Improvement Corporation of Tuscarawas County (the 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 2011 and 2010, no monies were paid to the Corporation by the Village.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

C Tuscarawas County Regional Planning Commission (the 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 2011 and 2010, \$179 was paid to the Commission by the Village for each year.

10. Subsequent Events

Subsequent events were evaluated by management through August 31, 2012, the date the financial statements were available to be issued.

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

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

To the Village Council:

We have audited the financial statements of the Village of Gnadenhutten, Tuscarawas County, (the Village) as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated August 31, 2012 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 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness and another deficiency we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2011-04 described in the accompanying schedule of findings to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with

governance. We consider finding 2011-05 in the accompanying schedule of findings to be a significant deficiency.

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 2011-01 through 2011-03.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 31, 2012.

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

Varney, Fink & Associates

VARNEY, FINK & ASSOCIATES, INC.
Certified Public Accountants

August 31, 2012

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

FINDING NUMBER 2011-001

Noncompliance Citation

Ohio Revised Code, Section 5705.41(B), states that no subdivision or taxing unit is to expend money unless it has been appropriated.

2011 expenditures exceeded appropriations in the following funds:

<u>Fund</u>	<u>Authorized Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$356,000	\$461,113	(\$105,113)
Street Construction M&R	65,000	80,294	(15,294)
Fire Levy	65,000	78,754	(13,754)
Municipal Income Tax Levy	200,000	295,091	(95,091)
Sewer	160,000	182,628	(22,628)
Sewer Upgrade	175,592	175,664	(72)

2010 expenditures exceeded appropriations in the following funds:

<u>Fund</u>	<u>Authorized Appropriations</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$367,953	\$407,307	(\$39,354)
Street Construction M&R	65,000	85,786	(20,786)
Municipal Income Tax Levy	200,000	259,306	(59,306)
Capital Improvements	35,000	36,937	(1,937)
Water	90,000	123,164	(33,164)

FINDING NUMBER 2011-02

Noncompliance Citation

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 certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

There are several exceptions to the standard requirement stated above that a Fiscal Officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

"Then and Now" Certificate – If the Fiscal Officer can certify that both at the time the contract 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 the 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.

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 not need 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 2011, the Clerk/Treasurer did not properly certify 92% of expenditures tested prior to incurring the obligation. In 2010, 86% of expenditures tested were not properly certified 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.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

FINDING NUMBER 2011-03

Noncompliance Citation

Ohio Revised Code, Section 5705.10, requires that monies paid into any fund be used only for the purposes for which such fund is established. The Village had negative cash fund balances at December 31:

2011	
Fire Levy Fund	\$2,194
Municipal Income Tax Fund	\$212
2010	
Municipal Income Tax Fund	\$169

FINDING NUMBER 2011-04

Material Weakness

Sound financial reporting is the responsibility of the Village Clerk/Treasurer and Village Council and is essential to ensure the information to the readers of the financial statements is complete and accurate.

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

Reclassifications and adjustments of receipts and disbursements were made as follows:

For the Year Ending 12/31/11:

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
Receipts			
Property and Other Local Taxes	(\$12,912)	(\$2,659)	
Intergovernmental	26,162	513	
Charges for Services	(5,219)		
Earnings on Investments	516	12	(\$187)
Miscellaneous	(4,980)		
Transfers-In	(906)		
Disbursements			
Contractual Services			82
Principal Retirement	(1,956)	(2,019)	(4,272)
Interest and Fiscal Charges	1,956	2,019	4,190

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010**

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

For the Year Ending 12/31/10:

	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>
Receipts			
Property and Other Local Taxes	(\$13,700)	(\$2,784)	
Intergovernmental	25,049	2,784	
Charges for Services	(11,349)		
Earnings on Investments	1,241	7	(\$333)
Miscellaneous	(40,000)		
Loan Proceeds	40,000		
Disbursements			
Contractual Services			80
Principal Retirement	(2,490)	(1,842)	(4,450)
Interest and Fiscal Charges	2,490	1,842	4,370

FINDING NUMBER 2011-05

Significant Deficiency

The Village uses a credit card to make purchases. We tested all credit card statements in 2011 and 2010. The Village was unable to provide supporting detailed documentation on a significant number of purchases made. For 2011, there was \$10,458.45 charged with only \$5,201.18 of the purchases supported by detailed receipts. In 2010, the Village made purchases of \$2,348.54 with the credit card but could only provide detailed support for \$1,446.32 of the purchases.

Without detailed receipts, the Village is unable to monitor purchases and know that purchases made are authorized Village purchases.

Official's Response: We did not receive a response from the Village for the findings above.

**VILLAGE OF GNADENHUTTEN
TUSCARAWAS COUNTY
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2009-VGTC-001	Ohio Rev. Code 5705.41 (B) - Expenditures exceeded appropriations	No	Reissued as finding number 2001-01
2009-VGTC-002	Ohio Rev. Code 5705.41(D) - Non-certification of funds	No	Reissued as finding number 2011-02
2009-VGTC-003	Reporting Financial Activity - The Village's financial statements contained financial reporting errors	No	Reissued as finding number 2011-04
2009-VGTC-004	Municipal Income Tax Levy Fund was incorrectly classified	Yes	
2009-VGTC-005	Ohio Rev. Code 5705.10 - Negative Fund Balances	No	Reissued as finding number 2011-03

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Dave Yost • Auditor of State

VILLAGE OF GNADENHUTTEN

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 20, 2012