

**VILLAGE OF EDGERTON
WILLIAMS COUNTY
Regular Audit
For the Year Ended December 31, 2013**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Village Council
Village of Edgerton
324 North Michigan Street
Edgerton, Ohio 43517

We have reviewed the *Independent Auditor's Report* of the Village of Edgerton, Williams County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2013 through December 31, 2013. 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.

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 Edgerton 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 2, 2014

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VILLAGE OF EDGERTON
WILLIAMS COUNTY

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INDEPENDENT AUDITOR'S REPORT

October 8, 2014

Village of Edgerton
Williams County
324 North Michigan St.
Edgerton, OH 43517

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the **Village of Edgerton**, Williams County (the Village) as of and for the year ended December 31, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1B of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy these requirements.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013, or changes in financial position or cash flows, thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Edgerton, Williams County, as of December 31, 2013, and its combined cash receipts and disbursements for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1B.

Emphasis of Matter

As disclosed in Note 15, on December 17, 2013, the Auditor of State declared the Village of Edgerton to be in a state of fiscal emergency, in accordance with Section 11.03 of the Ohio Revised Code. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Totals (Memorandum Only)</u>
Cash Receipts:				
Property and Other Local Taxes	\$ 158,935	\$ 40,118	\$ -	\$ 199,053
Municipal Income Tax	330,714	-	178,017	508,731
Intergovernmental	67,585	157,101	59,530	284,216
Charges for Services	59,832	-	-	59,832
Fines, Licenses, and Permits	32,014	1,286	-	33,300
Earnings on Investments	1,466	1,667	-	3,133
Miscellaneous	88,462	6,150	52,502	147,114
<i>Total Cash Receipts</i>	<u>739,008</u>	<u>206,322</u>	<u>290,049</u>	<u>1,235,379</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	493,514	54,707	-	548,221
Public Health Services	2,877	-	-	2,877
Leisure Time Activities	26,767	-	-	26,767
Community Environment	6,625	-	-	6,625
Transportation	48,975	175,654	-	224,629
General Government	189,525	407	-	189,932
Capital Outlay	159	101,637	927,074	1,028,870
Debt Service:				
Principal Retirement	-	-	15,000	15,000
Interest and Fiscal Charges	-	-	23,850	23,850
<i>Total Cash Disbursements</i>	<u>768,442</u>	<u>332,405</u>	<u>965,924</u>	<u>2,066,771</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(29,434)</u>	<u>(126,083)</u>	<u>(675,875)</u>	<u>(831,392)</u>
Other Financing Receipts (Disbursements)				
Sale of Capital Assets	-	-	39,509	39,509
Loan Repayment	-	27,514	-	27,514
Transfers-In	-	39,271	-	39,271
Transfers-Out	(39,271)	-	-	(39,271)
Other Financing Sources	-	-	500	500
Other Financing Uses	(84)	(2,000)	-	(2,084)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(39,355)</u>	<u>64,785</u>	<u>40,009</u>	<u>65,439</u>
<i>Net Change in Fund Cash Balances</i>	<u>(68,789)</u>	<u>(61,298)</u>	<u>(635,866)</u>	<u>(765,953)</u>
<i>Fund Cash Balances, January 1</i>	<u>(184,527)</u>	<u>214,226</u>	<u>933,070</u>	<u>962,769</u>
Fund Cash Balances, December 31				
Restricted	-	152,928	-	152,928
Committed	-	-	297,204	297,204
Unassigned (Deficit)	(253,316)	-	-	(253,316)
<i>Fund Cash Balances, December 31</i>	<u>\$ (253,316)</u>	<u>\$ 152,928</u>	<u>\$ 297,204</u>	<u>\$ 196,816</u>

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

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 3,141,381
Miscellaneous	35,031
<i>Total Operating Revenues</i>	<i>3,176,412</i>
Operating Cash Disbursements:	
Personal Services	560,954
Contractual Services	2,268,948
Supplies and Materials	165,208
<i>Total Operating Cash Disbursements</i>	<i>2,995,110</i>
<i>Operating Income</i>	<i>181,302</i>
Non-Operating Cash Receipts/(Disbursements):	
Property and Other Local Taxes	5,545
Intergovernmental	381
Earnings on Investments	23,850
Sale of Bonds	462,091
Principal Retirement	(643,500)
Interest and Other Fiscal Charges	(20,064)
Other Financing Sources	8,100
Other Financing Uses	(7,312)
<i>Total Non-Operating Cash Receipts/(Disbursements)</i>	<i>(170,909)</i>
<i>Net Change in Fund Cash Balances</i>	<i>10,393</i>
<i>Fund Cash Balances, January 1</i>	<i>2,318,891</i>
Fund Cash Balances, December 31	\$ 2,329,284

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

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

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 Edgerton, Williams County (the Village), as a body corporate and politic. A publicly elected six-member Council directs the Village. The Village provides general governmental services, including electric, water, and sewer utilities, park operations, street maintenance, police and fire protection and general maintenance.

The Village participates in four joint ventures and four long term purchase commitments. Notes 11 and 12 to the financial statements provide further information on these organizations. These organizations are:

Joint Ventures:

- Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2)
- Ohio Municipal Electric Generation Agency Joint Venture 4 (OMEGA JV4)
- Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5)
- Ohio Municipal Electric Generation Agency Joint Venture 6 (OMEGA JV6)

Long Term Purchase Commitments:

- Prairie State Energy Campus (PSEC)
- American Municipal Power Generating Station (AMPGS)
- Combined Hydroelectric Projects
- American Municipal Power Fremont Energy Center

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.

The Village to date values its repurchase agreement at cost and Town Hall Improvement Bonds at cost, less repayments.

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 EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. 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.

Revolving Loan Fund – This fund receives grants, loan repayments and interest income to be used for economic development.

3. Capital Projects Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant Capital Project Fund:

Infrastructure Fund – This fund received proceeds from the Town Hall Improvement Bond. The proceeds were used to renovate the new municipal building.

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 Fund:

Electric Fund – This fund receives charges for services from residents to cover electric service costs.

E. Budgetary Process

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

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. Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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 commitments are made. Encumbrances outstanding at year end are canceled, and re-appropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

A summary of 2013 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.

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.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Balance (Continued)

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:

	2013
Demand deposits	<u>\$ 890,056</u>
Total deposits	<u>890,056</u>
Repurchase agreement	751,044
Town Hall Improvement Bond	<u>885,000</u>
Total investments	<u>1,636,044</u>
Total deposits and investments	<u><u>\$ 2,526,100</u></u>

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

Investments: A financial institution's trust department holds the Village's equity securities in book entry form in the Village's name to collateralize repurchase agreements. The Electric Fund holds the Town Hall Improvement Bond identifying the Village as owner.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

3. BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2013 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ -	\$ 739,008	\$ 739,008
Special Revenue	-	273,107	273,107
Capital Projects	-	330,058	330,058
Enterprise	-	3,676,379	3,676,379
Total	\$ -	\$ 5,018,552	\$ 5,018,552
2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ -	\$ 807,797	\$ (807,797)
Special Revenue	-	334,405	(334,405)
Capital Projects	-	965,924	(965,924)
Enterprise	-	3,665,986	(3,665,986)
Total	\$ -	\$ 5,774,112	\$ (5,774,112)

Contrary to Ohio law, the Village did not certify to the county auditor the total amount from all sources which is available for expenditures from each fund, nor did the Village approve or file an annual appropriation resolution with the county auditor. Also, contrary to Ohio law, at December 31, 2013, the General Fund had a cash deficit balance of \$(253,316). Also, contrary to Ohio law, all funds had budgetary expenditures exceeding appropriations.

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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% 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.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

6. LONG TERM DEBT

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Town Hall Improvement General Obligation Bond	\$ 885,000	2.65%
Electric System Improvement Loan	<u>777,500</u>	1.25%
Total	<u>\$ 1,662,500</u>	

In December 2012, the Village issued a \$900,000 Town Hall Improvement General Obligation Bond to pay the cost of renovating, improving and equipping the new Village Town Hall. The Bond was issued with an interest rate of 2.65% and is to be repaid over a period of 15 years. The general revenues of the Village have been pledged to repay the Bond. The Bond was purchased by the Village's Electric Fund.

The Village entered into a loan agreement with American Municipal Power, Inc. (AMP) for the amount of \$2,400,000 for the purpose of financing the Village's share of the cost of participating in the Ohio Municipal Electric Generation Agency Joint Venture (OMEGA JV2) and making certain improvements to the Village's municipal electric system. The Village is to pay, but only from the revenues of its electric system, the loan made by AMP together with interest thereon equal to the rate of interest on the Electric System Improvement Bond Anticipation Notes (the Notes) to be issued by AMP in one or more series, or on notes issued to refund the Notes, or on the Electric System Improvement Bonds (the Bonds) to be issued by AMP in anticipation of which Bonds the Notes are issued.

On the maturity date of the Notes or refunding notes, the Village will pay to AMP all interest due on the Notes or refunding notes, plus an amount of principal equal to the amount of principal which would be due in the corresponding year on a loan in the original principal amount of such series, for a term of 20 years, at the interest rate borne by such series of the Notes or refunding notes.

AMP will use its best efforts to refinance any remaining principal of the Notes or refunding notes; provided, however, that if AMP is unable to refinance the Notes or refunding notes, it shall give the Village 30 days notice of such inability, and the Village shall pay to AMP all amounts necessary to retire the Notes or refunding notes at maturity.

Amortization of the Town Hall Improvement Bond, including interest, is scheduled as follows:

Year Endind December 31,	<u>Town Hall</u>
2014	\$ 43,452
2015	42,922
2016	47,392
2017	66,730
2018	65,538
2019-2023	411,355
2024-2027	<u>427,296</u>
Total	<u>\$ 1,104,685</u>

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

7. SHORT TERM DEBT

The Village issued Sanitary Sewer Refunding Bond Anticipation Notes, Series 2013 in the amount of \$462,000 during 2013. These notes which mature on January 23, 2014, had an interest rate of 1.70%. The Notes were issued for the purpose of paying the cost of refunding mortgage revenue bonds originally issued to construct a municipal sanitary sewage collection, treatment and disposal system by constructing interceptor sewers, lateral sewers, force mains, pumping stations, service connections, and a wastewater treatment facility and are backed by the full faith and credit of the Village.

8. RETIREMENT SYSTEMS

The Village's 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.

The Ohio Revised Code also prescribes contribution rates. For 2013, OP&F participants contributed 5% of their wages and the Village contributed to OP&F an amount equal to 24.5% through June 30, 2013. After July 1, 2013, the Village contribution increased to 25.25%. For 2013, OPERS members contributed 5%, of their gross salaries, and the Village contributed an amount equaling 19% of participants' gross salaries. The Village had paid all contributions required through December 31, 2013.

Effective July 1, 1991, all employees not otherwise covered by OPERS or OP&F have an option to choose Social Security. As of December 31, 2013, the Mayor, Council members and volunteer fire fighters have elected Social Security. The Village's liability is 6.2% of wages paid.

9. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

10. CONTINGENT LIABILITIES

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

11. JOINT VENTURES

A. Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2)

The Village of Edgerton is a Non-Financing Participant and an Owner Participant with an ownership percentage 1.09% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP and to pay or incur the costs of the same in accordance with the JV2 Agreement.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2013, the outstanding debt was \$15,769,323. The Village's net investment in OMEGA JV2 was \$248,105 at December 31, 2013. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2013 are:

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

11. JOINT VENTURES (Continued)

A. Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2) (Continued)

Municipality	Percent Ownership	Kw Entitlement	Municipality	Percent Ownership	Kw Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	<u>0.79%</u>	<u>1,066</u>	Custar	<u>0.00%</u>	<u>4</u>
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

B. Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5)

The Village of Edgerton is a Financing Participant with an ownership percentage of .92 %, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

11. JOINT VENTURES (Continued)

B. Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5) (Continued)

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2013, the Village has met its debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The Village's net investment to date in OMEGA JV5 was \$89,902 at December 31, 2013. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

C. Ohio Municipal Electric Generation Agency Joint Venture 6 (OMEGA JV6)

The Village of Edgerton is a Financing Participant with an ownership percentage of 1.39%, and shares participation with nine other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 6 (OMEGA JV6). Financing Participants, after consideration of the potential risks and benefits can choose to be Owner Participants or Purchaser Participants. Owner Participants own undivided interests, as tenants in common in the Project in the amount of its Project Share. Purchaser Participants purchase the Project Power associated with its Project Share.

Pursuant to the OMEGA Joint Venture JV6 Agreement (Agreement), the participants agree jointly to plan, acquire, construct, operate and maintain the Project, and hereby agree, to pay jointly for the electric power, energy and other services associated with the Project.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

11. JOINT VENTURES (Continued)

C. Ohio Municipal Electric Generation Agency Joint Venture 6 (OMEGA JV6) (Continued)

OMEGA JV6 was created to construct four (4) wind turbines near Bowling Green Ohio. Each turbine has a nominal capacity of 1.8 MW and sells electricity from its operations to OMEGA JV6 Participants.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Adjustable Rate Revenue Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV6, any excess funds shall be refunded to the Non-Financing Participants in proportion to each Participant's Project Share and to Financing Participant's respective obligations first by credit against the Financing Participant's respective obligations. Any other excess funds shall be paid to the Participants in proportion to their respective Project Shares. Under the terms of the Agreement each financing participant is to fix, charge and collect rates, fees, charges, including other available funds, at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV6 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2013, the Village has met its debt coverage obligation.

The Agreement provides that the failure of any JV6 participant to make any payment due by the due date constitutes a default. In the event of a default and one in which the defaulting Participant failed to cure its default as provided for in the Agreement, the remaining participants would acquire the defaulting Participant's interest in the project and assume responsibility for the associated payments on a pro rata basis up to a maximum amount equal to 25% of such non-defaulting Participant's Project share ("Step Up Power").

OMEGA JV6 is managed by American Municipal Power, Inc., which acts as the joint venture's agent. On July 30, 2004 AMP issued \$9,861,000 adjustable rate bonds that mature on August 15, 2019. The interest rate on the bonds will be set every six months until maturity. No fixed amortization schedule exists. The net proceeds of the bond issues were used to construct the OMEGA JV6 Project.

The Village's net investment to date in OMEGA JV6 was \$114,621 at December 31, 2013. Complete financial statements for OMEGA JV6 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

12. LONG TERM PURCHASE COMMITMENTS

A. Prairie State Energy Campus (PSEC)

On December 20, 2007, AMP acquired 368,000kW or an effective 23.26% undivided ownership interest (the "*PSEC Ownership Interest*") in the Prairie State Energy Campus ("PSEC"), a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company ("*AMP 368 LLC*"). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

12. LONG TERM PURCHASE COMMITMENTS (Continued)

A. Prairie State Energy Campus (PSEC) (Continued)

The Village of Edgerton has executed a take-or-pay power sales contract with AMP for 995 kW or 0.27% kW of capacity and associated energy from the Prairie State facility.

On June 12, 2012, Unit 1 of the PSEC began commercial operation and on November 2, 2012 Unit 2 of the PSEC began commercial operation.

AMP's share of the total Project costs, including AMP's share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1.697 billion of debt of which on December 31, 2013 the Village of Edgerton's share was approximately \$4,534,992. These estimated costs include (i) AMP's costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project.

AMP will sell the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract (the "*Prairie State Power Sales Contract*") with 68 Members (the "*Prairie State Participants*"). The Prairie State Power Sales Contract is, in all material respects, comparable to the Power Sales Contract for the Project. The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

B. American Municipal Power Generating Station Project

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 1,000 kilowatts of a total 771,281 kilowatts, giving the Village a 0.13 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed *impaired* and participants were obligated to pay costs already incurred. In prior years, payment of these costs was not made due to AMP's pursuit of legal action to void them. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share at March 31, 2014, of the impaired costs is \$170,719. The Village received a credit of \$56,955 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$45,225 related to the AMPGS costs deemed to have future benefit for the project participants, and made payments of \$115,022 leaving a net credit balance of impaired cost estimate of \$46,483. The Village will be leaving the credit balance with AMP to offset any additional costs in the future. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the Village's credit balance. These amounts will be recorded as they become estimable.

The Village intends to recover these costs and repay AMP over the next 5 years through a power cost adjustment.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

12. LONG TERM PURCHASE COMMITMENTS (Continued)

C. Combined Hydroelectric Projects

AMP is currently developing three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the “*Combined Hydroelectric Projects*”), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects entails the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers’ dams and includes associated transmission facilities. The Combined Hydroelectric Projects, including associated transmission facilities, will be constructed and operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects. AMP received the last of the material permits needed to begin construction on the Cannelton hydroelectric facility and Smithland hydroelectric facility, respectively in 2009. Ground breaking ceremonies were held for Cannelton on August 25, 2009 and for Smithland on September 1, 2010. AMP received the last of the material permits for the Willow Island hydroelectric facility in the last quarter of 2010 and ground breaking ceremonies took place on July 21, 2011.

The Village of Edgerton has executed a take-or-pay power sales contract with AMP for 799 kW or 0.38% of capacity and associated energy from the hydro facilities.

All major contracts for the projects which include the turbines, the powerhouse construction, the powerhouse gates, the powerhouse cranes, and the transformers have been awarded for the Cannelton, Smithland, and Willow Island facilities. And property right-of-way acquisitions for the transmission lines have been completed for all three projects.

As of January 30, 2014, AMP is projecting that the Combined Hydroelectric Projects are expected to enter into commercial operation as follows: Cannelton in the second quarter of 2015; Willow Island in the second quarter of 2015; and Smithland in the second quarter of 2016.

Please note that this date is subject to change and is dependent on a number of factors affecting the project’s construction schedule, including weather. As a result, this date may be revised to reflect earlier or later expected commercial operation as construction progresses. AMP will update the above expected commercial operation date in the 4th quarter of 2014 after the construction season ends.

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP has issued in seven series \$2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the “*Combined Hydroelectric Bonds*”), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds) of which the Village of Edgerton’s share on December 31, 2013 was approximately \$7,836,216. The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

12. LONG TERM PURCHASE COMMITMENTS (Continued)

D. AMP Fremont Energy Center

On February 3, 2011 American Municipal Power, Inc. (AMP) entered into a non-binding memorandum of understanding (MOU) with FirstEnergy Corp. regarding the Fremont Energy Center ("AFEC"). AFEC is a 707 MW natural gas fired combined cycle generation plant with a Base Capacity of 512 MW, located near the city of Fremont, Ohio. The closing date to purchase was July 28, 2011. AMP's acquisition of the plant was financed with draws on an additional line of credit for \$600,000,000 secured solely for the purpose of purchasing the plant.

To provide permanent financing for the AFEC Project on June 29, 2012 AMP issued in two series \$546,085,000 of its AMP Fremont Center Project Revenue Bonds consisting of taxable and tax-exempt obligations to (i) with other available funds, to repay the \$600,000,000 principal amount of an interim loan that financed the acquisition of the AMP Fremont Energy Center ("AFEC") and development costs and completion of construction and commissioning of AFEC; (ii) to make deposits to the Construction Accounts under the Indenture to finance additional capital expenditures allocable to AMP's 90.69% undivided ownership interest in AFEC; (iii) to fund deposits to certain reserve accounts; and (iv) to pay the costs of issuance of the Series 2012 Bonds.

On January 21, 2012 the AMP Fremont Energy Center ("AFEC") began commercial operation. The total cost of construction of the AFEC at the date it was placed in service was \$582,200,642. This amount included a development fee of \$35,535,448 paid by AFEC participants for the account of AMP Generating Station participants who are also AFEC participants. The amount was previously recorded as a noncurrent regulatory asset at December 31, 2011. In June 2012, AMP sold 26.419 MW or 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency ("MPPA") and entered into a power sales contract with Central Virginia Electric Cooperative ("CVEC") for the output of a 21.248 MW or 4.15% interest in AFEC. AMP has sold the output of the remaining 464.355 MW or 90.69% interest to the AFEC participants, which consist of 87 of its members, pursuant to a take-or-pay power sales contract.

The Village of Edgerton has executed a take-or-pay power sales contract with AMP for 530 kW or 0.11% of capacity and associated energy from the AFEC facility. As of December 31, 2013, the Village's share of the permanent financing was approximately \$623,284.

13. SEGMENT INFORMATION

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric Generation Agency (OMEGA) Joint Ventures as described in Note 11. The Village is liable for debt related to the financing of the OMEGA joint ventures. The activity is accounted for in the Village's Electric Fund, which is reported as part of the combined Enterprise Fund Type in the financial statements. Summary financial information for the Electric Fund is presented below:

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

13. SEGMENT INFORMATION (Continued)

	2013
Total Assets	\$ 2,153,397
Total Liabilities	983,876
 Condensed Operating Information:	
Operating Receipts	
Charges for Services	2,505,353
Other Operating Receipts	31,530
Total Operating Receipts	2,536,883
 Operating Expenses	 2,389,214
 Operating Income	 147,669
 Nonoperating Receipts (Disbursements)	
Intergovernmental Receipts	5,926
Principal Payments	(162,500)
Interest Payments	(11,932)
Other Nonoperating Receipts (Disbursements)	23,198
Change in Fund Cash Balance	2,361
Beginning Fund Cash Balance	2,151,036
Ending Fund Cash Balance	\$ 2,153,397

Condensed Cash Flows Information:

Net Cash Provided (Used) by:

Operating Activities	\$	147,669
 Capital and Related Financing Activities		
Principal Payments on Capital and Related Debt		(162,500)
Interest Payments on Capital and Related Debt		(11,932)
Other Capital and Related Financing Activities		29,124
Net Cash Provided (Used) by Capital and Related Financing Activities		(145,308)
 Net Increase (Decrease)		 2,361
Beginning Fund Cash Balance		2,151,036
Ending Fund Cash Balance	\$	2,153,397

14. CONTRACTUAL COMMITMENTS

On November 24, 2009, Council entered into a real estate purchase agreement with the Edgerton Local School District (the District) in the amount of \$250,000. The property purchased is a portion of the former elementary school and houses the Village offices. Per the agreement, the Village made a down payment of \$10,000 and paid the District \$90,000 at closing on April 23, 2012. The Village will remit a payment of \$15,000 annually upon the anniversary date of the closing for a period of 10 years. The contract amount outstanding as of December 31, 2013 is \$135,000.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)**

15. FISCAL EMERGENCY

In accordance with Ohio Revised Code Chapter 118, the Village was placed under fiscal emergency by the Auditor of State on December 17, 2013, due to a deficit cash fund balance in the General Fund at December 31, 2012 and August 31, 2013. As of December 31, 2013, the Village's General Fund has a balance of \$(253,316).

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

October 8, 2014

Village of Edgerton
Williams County
324 North Michigan St.
Edgerton, OH 43517

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United State and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the **Village of Edgerton**, Williams County (the Village) as of and for the year ended December 31, 2013, and the related notes to the financial statements and have issued our report thereon dated October 8, 2014, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. As disclosed in Note 15, on December 17, 2013, the Village was declared by the Auditor of State to be in a state of fiscal emergency.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of audit findings we identified certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

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 internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. 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 findings 2013-001 through 2013-006 described in the accompanying schedule of audit findings to be material weaknesses.

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, opining 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 audit findings as items 2013-003 through 2013-006.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated October 8, 2014.

Entity's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Perry and Associates
Certified Public Accountants, A.C.
Marietta, Ohio

VILLAGE OF EDGERTON
WILLIAMS COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013

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

FINDING NUMBER 2013-001

Material Weakness

Posting Receipts, Disbursements and Classification of Fund Balances

Receipts and disbursements should be posted to the fund and line item accounts as established by Ohio Administrative Code. Fund balances should be properly classified based on Governmental Accounting Standards Statement No. 54.

During 2013, receipts, disbursements and fund balances were not always posted or classified correctly. The following errors were noted:

- Cable franchise fees were misclassified as Property and Other Local Taxes instead of Fines, Licenses and Permits in the General Fund
- Sale of land was misclassified as Sale of Bonds instead of Sale of Capital Assets in the Infrastructure Capital Projects Fund
- Insurance reimbursements were misclassified as Sale of Bonds instead of Miscellaneous in the Infrastructure Capital Projects Fund
- Payment of Town Hall Improvement Bonds were recorded as Capital Outlay instead of Principal Retirement and Interest and Fiscal Charges in the Infrastructure Capital Projects Fund
- The Income Tax Capital Projects Fund balance was misclassified as Assigned instead of Committed
- AMP Omega JV5 and JV6 payments were recorded as Principal Retirement and Interest and Fiscal Charges instead of Contractual Services in the Electric Operating Fund

Not posting receipts and disbursements or classifying fund balances accurately resulted in the financial statements requiring reclassifications. The financial statements reflect all reclassifications.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management perform a detailed review of its draft financial statements. Such review should include procedures to ensure that all sources of revenues are properly identified and classified on the financial statements.

We also recommend the Fiscal Officer refer to Ohio Administrative Code Section and/or the Ohio Village Handbook for guidance to determine the proper establishment of receipt and disbursement accounts and posting of receipts and disbursements. The Fiscal Officer should refer to Auditor of State Bulletin 2011-004 for assistance in properly classifying fund balances.

Management's Response – During 2013 the Village went through major changes at the fiscal officer position. Overall, three people held this position during the year with the one being an interim doing it part time. The new fiscal office was not aware of all of the accounting issues and rules with GASB No. 54. The fiscal officer is working hard to get caught up on the rules and trying to double check entries so these types of errors are less frequent in the future.

VILLAGE OF EDGERTON
WILLIAMS COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

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

FINDING NUMBER 2013-002

Material Weakness

Bank Reconciliations

The Fiscal Officer did not prepare accurate monthly reconciliations of bank balances to book balances. Outstanding checks, deposits in transit and other reconciling items were not detailed to enable a proper reconciliation to be performed. The lack of proper reconciliations among the bank statements, cashbook and ledgers resulted in numerous errors which remained undetected and/or uncorrected until the audit. The extensive problems with these reconciliations resulted in the need for the Village to obtain from the Auditor of State's Local Government Services office detailed proofs of cash for each month and a reconstruction of the cash book for the entire audit period.

We recommend the Fiscal Officer prepare detailed bank reconciliations that include all bank account balances being reconciled to total fund balances. Copies of bank reconciliations should be presented to the Village Council for the Council's review and use in managing the Village. The Fiscal Officer should reconcile activity entered in the receipts ledger and appropriations ledger to the cashbook.

Management's Response – During 2013 the Village went through major changes at the fiscal officer position. Overall, three people held this position during the year with the one being an interim doing it part time. When the new fiscal officer came in in May reconciliations had not been done since 2012. Reconciliations were done outside the system for 2012 and nothing had been done at all in 2013 until approximately July when the new fiscal officer tried to start reconciling on a monthly basis. However, major errors from the beginning of the year were causing issues. The new fiscal officer is closing out monthly and reconciling the bank accounts within the first week to 10 days after month end.

FINDING NUMBER 2013-003

Material Weakness/Noncompliance

Ohio Revised Code Section 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund was established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following fund had a negative fund balance as of December 31, 2013:

Fund	Fund Balance at 12/31/13
General	\$ (253,316)

On December 17, 2013, the Village of Edgerton was placed in Fiscal Emergency due to negative fund balances. Per the Village's Financial Recovery Plan, dated June 23, 2014, this fund balance is still expected to be negative until 2016.

We recommend the Village follow the steps outlined in its Financial Recovery Plan while monitoring fund balances and continuing efforts to restore the financial health of this fund.

Management's Response – The Village is following the recovery plan and trying to correct the deficit balance in the general fund as quickly as possible. Currently through September of 2014 the Village has been able to reduce the deficit slightly, for 2014.

VILLAGE OF EDGERTON
WILLIAMS COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

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

FINDING NUMBER 2013-004

Material Weakness/Noncompliance

Ohio Revised Code Section 5705.36(A)(1) states that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing unites are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

We noted the Village did not certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year for the year ended December 31, 2013.

We recommend the Village take the necessary steps to certify their budgetary documents to the County Auditor on or before the required date. We also recommend the Village prepare the required documents and use due care in monitoring its budgetary documents since these documents are an integral part of the budgetary control process. The Village should integrate the budgetary documents into the computer system. Failure to properly monitor budgetary activity on a regular basis could result in negative fund balances. We recommend that the Village monitor budgetary activity on a regular basis and obtain amended certificates as needed. The Village should refer to the Ohio Compliance Supplement and Village Officer's Handbook for guidance on the legal budgetary process.

Management's Response – The prior fiscal officer did not submit this to the county. The new fiscal officer is making sure this is done in the future.

FINDING NUMBER 2013-005

Material Weakness/Noncompliance

Ohio Revised Code Section 5705.38 states that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the County Budget Commission based upon the actual year-end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until April 1.

The Village did not approve or file a 2013 annual appropriation resolution with the County Budget Commission. No temporary appropriation measure was passed by the Village Council.

Ohio Administrative Code 117-2-02(C)(1) states in part the legal level of control is the level (e.g. fund, program or function, department, object) at which spending in excess of budgeted amounts would be a violation of law. This is established by the level at which the legislative body appropriates. For all local public offices subject to the provisions of Chapter 5705 of the Revised Code, except school districts and public libraries, the minimum legal level of control is described in Section 5705.38 of the Revised Code. Ohio Revised Code 5705.38(C) requires the following minimum level of budgetary control for "subdivisions" other than schools: appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department and division, and, within each, the amount appropriated for personal services. The Village's appropriations did not meet the minimum legal level of control for the year ended December 31, 2013.

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making expenditure unless it has been properly appropriated. All funds had expenditures which exceeded appropriations.

VILLAGE OF EDGERTON
WILLIAMS COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

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

FINDING NUMBER 2013-005 (Continued)

Ohio Revised Code Section 5705.38 (Continued)

Failure to monitor budgetary activity can result in overspending and negative fund balances. We recommend the Village ensures its annual appropriation resolution is passed in a timely manner. We also recommend the Fiscal Officer deny any payments until the legislative authority has passed the necessary changes to the appropriation measure. There is some indication that management has started to monitor the Village's budgetary receipts and expenditures, and we recommend that the Village continue to monitor receipts and expenditures. By regularly monitoring its budgetary position throughout the year, the Village will be better able to determine when amendments need to be made to original budgeted receipts thus avoiding negative fund/account code balances, and will be better prepared for making decisions which affect the overall cash position of the Village. The Village should refer to the Ohio Compliance Supplement and Village Officer's Handbook for guidance on the legal budgetary process.

Management's Response – A proper PO and approval has not been completely put in place prior to the arrival of the new fiscal officer. This is a continued work in process with staff in order to follow the proper procedure. Additionally, the new fiscal officer was not aware of the required process until a few months into his tenure. However, the new fiscal office is requiring an approved PO prior to any purchase.

FINDING NUMBER 2013-006

Material Weakness /Noncompliance

Ohio Revised Code Section 5705.41(D) requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required meeting any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Only the subdivision's fiscal officer need sign the certificate. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement 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.

1. "Then and Now" certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

VILLAGE OF EDGERTON
WILLIAMS COUNTY

SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013
(CONTINUED)

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

FINDING NUMBER 2013-006 (Continued)

Ohio Revised Code Section 5705.41(D) (Continued)

1. Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
2. Super Blanket Certificate – The entity 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. Only one super blanket certificate may be outstanding at a particular time for any one line-item appropriation.

The Village did not properly certify the availability of funds prior to purchase commitment for 79% of the expenditures tested in 2013. There was no evidence that the Village followed the aforementioned exceptions. Without these certifications, the management of the Village lost budgetary control over expenditures.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to an obligation being incurred by the Village. When prior certification is not possible, “then and now” certification should be used.

Management’s Response – A proper PO and approval has not been completely put in place prior to the arrival of the new fiscal officer. This is a continued work in process with staff in order to follow the proper procedure. Additionally, the new fiscal officer was not aware of the required process until a few months into his tenure. However, the new fiscal office is requiring an approved PO prior to any purchase.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012 -001	Ohio Revised Code Section 5705.41(D) – Failure to certify expenditures	No	Not Corrected; Repeated as Finding 2013-006
2012-002	Ohio Revised Code Section 5705.10(H) – Payments inconsistent with purpose of fund	No	Not Corrected; Repeated as Posting Receipts, Disbursement and Classification of Fund Balances in Finding 2013-001
2012-003	Ohio Revised Code Section 5705.39 – Appropriations in excess of estimated resources	No	Finding no Longer Valid; No appropriations or estimated resources issued in 2013
2012-004	Ohio Revised Code Section 5705.41(B) – Budgetary expenditures in excess of appropriations	No	Not Corrected; Repeated as Finding 2013-005
2012-005	Ohio Revised Code Section 5705.10(H) – Negative fund balances	No	Not Corrected; Repeated as Finding 2013-003
2012-006	Timely Posting of Transactions and Reconciling of Bank Accounts	No	Not Corrected; Repeated as Finding 2013-002

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Dave Yost • Auditor of State

VILLAGE OF EDGERTON

WILLIAMS 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 16, 2014**