



Dave Yost • Auditor of State

VILLAGE OF DESHLER
HENRY COUNTY

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Dave Yost • Auditor of State

Village of Deshler
Henry County
101 East Main Street
Deshler, Ohio 43516-1286

To the Village Council:

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 31, 2012

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Deshler
Henry County
101 East Main Street
Deshler, Ohio 43516-1286

To the Village Council:

We have audited the accompanying financial statements of the Village of Deshler, Henry County, Ohio (the Village), as of and for the year ended December 31, 2011. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2011 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, or its changes in financial position or cash flows, where applicable for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Deshler, Henry County, Ohio as of December 31, 2011, and its combined cash receipts and disbursements for the year then ended on the accounting basis Note 1 describes.

As described in Note 1F, during 2011 the Village 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 July 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.

Our audit was performed to form an opinion on the financial statements taken as a whole. The accompanying federal awards expenditures schedule provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. The schedule is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. This schedule was subject to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated, in all material respects, in relation to the financial statements taken as a whole



Dave Yost
Auditor of State

July 31, 2012

**VILLAGE OF DESHLER
HENRY 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	\$61,772	\$62,328	\$6,170	\$130,270
Municipal Income Tax		226,513		226,513
Intergovernmental	137,713	69,155	21,695	228,563
Charges for Services	2,500			2,500
Fines, Licenses and Permits	14,472			14,472
Earnings on Investments	5,508	52		5,560
Miscellaneous	15,321	1	51	15,373
<i>Total Cash Receipts</i>	<u>237,286</u>	<u>358,049</u>	<u>27,916</u>	<u>623,251</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	140,465			140,465
Public Health Services	6,000			6,000
Leisure Time Activities	7,068	7,063		14,131
Community Environment	7,373			7,373
Basic Utility Services	1,500			1,500
Transportation		130,047		130,047
General Government	78,550	54,938		133,488
Capital Outlay	14,756	94,119	496,390	605,265
<i>Total Cash Disbursements</i>	<u>255,712</u>	<u>286,167</u>	<u>496,390</u>	<u>1,038,269</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(18,426)</u>	<u>71,882</u>	<u>(468,474)</u>	<u>(415,018)</u>
Other Financing Receipts (Disbursements):				
Loan Proceeds			516,156	516,156
Sale of Capital Assets	1,200			1,200
Transfers In	90,000	80,000	15,000	185,000
Transfers Out	(70,113)	(229,000)		(299,113)
Other Financing Sources			12,500	12,500
<i>Total Other Financing Receipts (Disbursements)</i>	<u>21,087</u>	<u>(149,000)</u>	<u>543,656</u>	<u>415,743</u>
<i>Net Change in Fund Cash Balances</i>	2,661	(77,118)	75,182	725
<i>Fund Cash Balances, January 1</i>	<u>399</u>	<u>501,261</u>	<u>34,740</u>	<u>536,400</u>
Fund Cash Balances, December 31				
Restricted		424,143	109,922	534,065
Unassigned	3,060			3,060
<i>Fund Cash Balances, December 31</i>	<u>\$3,060</u>	<u>\$424,143</u>	<u>\$109,922</u>	<u>\$537,125</u>

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

**VILLAGE OF DESHLER
HENRY COUNTY**

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

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$2,677,308
Operating Cash Disbursements:	
Personal Services	521,126
Employee Fringe Benefits	154,580
Contractual Services	1,299,251
Supplies and Materials	433,824
Other	11,822
<i>Total Operating Cash Disbursements</i>	2,420,603
<i>Operating Income</i>	256,705
Non-Operating Receipts (Disbursements):	
Miscellaneous Receipts	61,134
Capital Outlay	(188,952)
Principal Retirement	(91,540)
Interest and Other Fiscal Charges	(47,439)
Other Financing Sources	181
<i>Total Non-Operating Receipts (Disbursements)</i>	(266,616)
<i>Loss before Transfers</i>	(9,911)
Transfers In	114,113
<i>Net Change in Fund Cash Balances</i>	104,202
<i>Fund Cash Balances, January 1</i>	2,006,728
<i>Fund Cash Balances, December 31</i>	\$2,110,930

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

**VILLAGE OF DESHLER
HENRY COUNTY**

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

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 Deshler, Henry County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water, sewer and electric utilities, park operations, and police services. The Village appropriates fire levy money to support a volunteer fire department.

The Village participates in the Ohio Government Risk Management Plan (the "Plan"), public entity risk pool. Note 8 to the financial statements provide additional information for this entity.

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 values certificates of deposit at cost.

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:

1. General Fund

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

2. Special Revenue Funds

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

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

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

Income Tax Fund – This fund receives .75 percent tax from residents and businesses of the Village. The Village distributes collections by transfer upon Council approval.

Permissive Tax Fund – This fund receives money from the State for repairing Village Streets.

3. Capital Project Funds

These funds account 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:

Water Capital Projects Fund – This fund receives loans and grant for the construction of the water plant.

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.

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 budgeted annually.

1. Appropriations

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

VILLAGE OF DESHLER
HENRY COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)

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

2. **Estimated Resources**

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

3. **Encumbrances**

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

A summary of 2011 budgetary activity appears in Note 3.

F. **Fund Balance**

For 2011, the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

1. Summary of Significant Accounting Policies (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

The Village maintains a deposit pool all funds use. The Electric Fund holds a loan with the Village's Municipal Gas Fund. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	2011
Demand deposits	<u>\$1,437,123</u>
Certificates of deposit	1,010,932
Municipal Gas Fund Loan	<u>200,000</u>
Total deposits	<u><u>\$2,648,055</u></u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation; or collateralized by securities specifically pledged by the financial institution to the Village.

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2011 was as follows:

2011 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$488,486	\$328,486	(\$160,000)
Special Revenue	547,894	438,049	(109,845)
Capital Projects	1,194,902	571,572	(623,330)
Enterprise	2,694,912	2,852,736	157,824
Total	\$4,926,194	\$4,190,843	(\$735,351)

2011 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$714,984	\$328,741	\$386,243
Special Revenue	445,012	515,167	(70,155)
Capital Projects	550,000	496,390	53,610
Enterprise	6,798,131	2,768,732	4,029,399
Total	\$8,508,127	\$4,109,030	\$4,399,097

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 .75 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.

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

6. Debt

Debt outstanding at December 31, 2011, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission 1994	\$ 34,461	4.00%
Ohio Public Works Commission 2007	32,653	
Ohio Water Development Authority Loan 4648	1,257,875	
Ohio Water Development Authority Loan 5481	1,350,368	
Municipal Gas Fund Loan	<u>200,000</u>	3.00%
Total	<u><u>\$2,875,357</u></u>	

The Ohio Public Works Commission (OPWC) 1994 loan relates to a sewer plant expansion project. The Loans will be repaid in semi-annual installments through the year 2014. The loan is secured by the revenues from the Village's sewer system.

The Ohio Public Works Commission (OPWC) 2007 loan relates to a well field development project. The Loans will be repaid in semi-annual installments through the year 2029. The loan is secured by the revenues from the Village's water system.

The Ohio Water Development Authority (OWDA) loan 4648 relates to an Environmental Protection Agency mandated project to separate the sanitary sewer lines from the current sewer system. The Village will install new taps to the owner's property. The loan will be repaid in semi-annual installments through the year 2028. The loan is secured by the revenues from the Village's sewer system. The Village does not yet have an amortization schedule for this loan.

In 2009, the Village entered into a loan agreement 5481 with the Ohio Water Development Authority (OWDA), as administrator for the U.S. Environmental Protection Agency, for the Village to receive a loan in the amount of \$1,750,102 for the water treatment plant. The amount is subject to change and has not been finalized. The interest rate on the loan is 0% per annum. The construction has not been completed to date and a final amortization schedule is unavailable. The loan will be repaid in semiannual installments over 20 years, but is not included in the accompanying amortization schedule.

The Municipal Gas Loan is an obligation of the Municipal Gas Fund due to the Village's Electric Fund for the purpose of initial capitalization of the system. The Loan will be repaid annually, commencing on the first anniversary date after the system is operational and continuing on the anniversary day thereafter until principal is paid. The loan is secured by the revenues from the Municipal Gas system. As of date, the system is not in full operation

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

Year ending December 31:	Ohio Public Works Commission Principal	Ohio Public Works Commission Interest	<u>Total</u>
2011	\$8,542	\$689	\$9,231
2012	15,565	978	\$16,543
2013	16,116	284	\$16,400
2014	1,920	144	\$2,064
2015	1,920		\$1,920
2016-2020	9,604		\$9,604
2021-2025	9,604		\$9,604
2026-2029	<u>3,843</u>		<u>\$3,843</u>
Total	<u><u>\$67,114</u></u>	<u><u>\$2,095</u></u>	<u><u>\$69,209</u></u>

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

7. Retirement Systems

A. Police and Fire Pension Fund and Ohio Public Employees Retirement System

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 2011, OP&F participants contributed 10% of their wages. For 2011, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2011, OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

B. Social Security

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System (OPERS) have an option to choose Social Security. As of December 31, 2011, the Mayor has elected Social Security. The Board's liability is 6.2 percent of wages paid.

8. Risk Pool Membership

Prior to 2009, the Village belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

8. Risk Pool Membership (Continued)

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management (“OPRM”), are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss, except OPRM retains 40% (17.5% through October 31, 2010 and 15% through October 31, 2009) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009 respectively. The Village participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium (“OPHC”), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member’s healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009 respectively. The Village does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member’s covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool’s audited financial statements 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, and include amounts for both OPRM and OPHC.

	2010		2009	
	OPRM	OPHC	OPRM	OPHC
Assets	\$12,036,541	\$1,355,131	\$11,176,186	\$1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members’ Equity	<u>\$7,191,485</u>	<u>\$300,035</u>	<u>\$6,323,701</u>	<u>\$105,185</u>

You can read the complete audited financial statements for OPRM and OPHC at the Plan’s website, www.ohioplan.org.

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

9. Outstanding Contracts

At December 31, 2011 the Village had the following outstanding contracts:

Water Treatment Plant Demolition. The total outstanding amount of the contract with Dennis Panning was \$69,444 to be paid with Environmental Protection Agency Grant monies.

Water Tower Repainting. The total outstanding amount of the contract with D & M Painting was \$181,640 to be paid with Ohio Water Development Authority Loan monies.

Automated Reading Water Meters. The total outstanding amount of the contract with United Systems Software was \$131,759 to be paid with Ohio Water Development Authority Loan monies.

10. American Municipal Power Generating Station Project

The Village of Deshler is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The Village executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

History of the AMPGS Project

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. (Please see attached Joint Resolution No. 09-11-2891 dated November 24, 2009.) The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2011, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011
(Continued)**

10. American Municipal Power Generating Station Project (Continued)

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2011 AMP has a regulatory asset of \$86,548,349 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

AMP has consistently communicated with the AMPGS participants as to the risks and uncertainties with respect to the outstanding potential liability the Village has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

Based on an allocation to Deshler of 1,000 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the Village of Deshler has a potential stranded cost obligation of \$163,555 for the AMPGS Project. The Village of Deshler does not have any payments on deposit with AMP at December 31, 2011.

The Village has requested of AMP to incorporate the potential stranded cost liability into its monthly power cost invoices and will be recovering it directly from its customers through the Village's power costs adjustment over the next 3 years. There will be one final payment in January 2015 for an amount undetermined at this time.

In making its determination as to how to proceed with the accounting treatment for the potential AMPGS Project liability, the Village has relied upon its Board of Public Affairs, information provided by AMP and its legal counsel with respect to the data, as well as the Village's audit team and Village management.

VILLAGE OF DESHLER
HENRY COUNTY

FEDERAL AWARDS EXPENDITURES SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011

FEDERAL GRANTOR	Federal	
Pass through entity	CFDA	
<u>Program Title</u>	<u>Number</u>	<u>Disbursements</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY		
Passed Through Ohio Environmental Protection Agency		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	<u>\$516,156</u>

The accompanying notes are an integral part of this schedule.

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2011**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditure Schedule (the Schedule) summarizes activity of the Village's federal award program. The Schedule has been prepared on the cash basis of accounting.



Dave Yost • Auditor of State

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

Village of Deshler
Henry County
101 East Main Street
Deshler, Ohio 43516-1286

To the Village Council:

We have audited the financial statements of the Village of Deshler, Henry County, Ohio (the Village), as of and for the year ended December 31, 2011 and have issued our report thereon dated July 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 and the Village adopted Governmental Accounting Standards Board Statement No. 54 in 2011. We also noted the Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code § 117.11(A) mandates the Auditor of State to audit Ohio governments. 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 2011-001 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 2011-002 described 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, Village Council, the audit committee, federal award agencies and pass through entities, and others within the Village. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

July 31, 2012



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Village of Deshler
Henry County
101 East Main Street
Deshler, Ohio 43516-1286

To the Village Council:

Compliance

We have audited the compliance of the Village of Deshler, Henry County, Ohio (the Village), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Village's major federal program for the year ended December 31, 2011. The summary of auditor's results section of the accompanying schedule of findings identifies the Village's major federal program. The Village's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Village's compliance based on our audit.

Our compliance audit followed auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Village's compliance with these requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with these requirements.

In our opinion, the Village complied, in all material respects, with the requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Village's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

We intend this report solely for the information and use of the audit committee, management, Village Council, others within the Village, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

July 31, 2012

**VILLAGE OF DESHLER
HENRY COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	GAAP- Adverse Regulatory - Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Program:	Capitalization Grants for Drinking Water State Revolving Funds – CFDA # 66.468
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2011-001

Material Weakness

Monitoring Financial Statements

Accurate financial reporting is the responsibility of the Fiscal Officer and is essential to ensure the information provided to the readers of the financial statements accurately reflects the Village's activity.

**FINDING NUMBER 2011-001
(Continued)**

The 2011 financial statements contained material errors, such as the following:

- OWDA loan proceeds and corresponding contractual services expense in the amount of \$75,458 were not recorded in the Capital Projects Fund.
- OWDA loan proceeds of \$440,698 were recorded as intergovernmental receipts in the Capital Projects Fund.

The financial statements have been adjusted to reflect corrections for these and other errors. To ensure the Village's financial statements are complete and accurate, the Council should adopt policies and procedures, including a final review of the financial statements to identify and correct errors and omissions.

FINDING NUMBER 2011-002

Significant Deficiency

Utility Account Delinquencies

Management does not monitor unpaid utility account balances. In addition, the Utility Department had old outstanding accounts that had not been collected or written off in a timely manner. Delinquencies at December 31, 2011 were:

Active	\$47,507
Inactive	14,735
Inactive Prior	<u>62,238</u>
Total	<u>\$124,480</u>

This limits control and accountability of the Village's operations and increases the possibility of errors or irregularities occurring and not being detected in a timely manner.

To improve control and accountability over the Village's utility revenue collection process, we recommend

- A policy be adopted by the Board of Public Affairs (BPA) for a stringent guideline of collection procedures for customers. This policy should list actions to be followed in collecting unpaid accounts and the timeframes in which they should occur.
- Management and the BPA should regularly review listings of outstanding unpaid customer accounts. These listings should include account name, outstanding balances, and length of time the accounts were unpaid.
- The BPA should be regularly advised of collection actions taken on outstanding unpaid accounts.
- After a defined period of time the BPA should make a determination whether any unpaid accounts are uncollectable and should be written off. Any write-offs should be under the express authority of the BPA.

Officials' Response:

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

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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**VILLAGE OF DESHLER
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Monitoring Financial Statements, due to errors in financial reporting.	No	Repeated as Finding 2011-001 in this report.
2010-002	Improved controls over Income Tax Procedures	Yes	

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Dave Yost • Auditor of State

VILLAGE OF DESHLER

HENRY 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
AUGUST 14, 2012