



Dave Yost • Auditor of State



VILLAGE OF EDGERTON  
WILLIAMS COUNTY

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# Dave Yost • Auditor of State

Village of Edgerton  
Williams County  
217 East River Street, P.O. Box 609  
Edgerton, Ohio 43517-0609

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

September 5, 2012

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# Dave Yost • Auditor of State

## INDEPENDENT ACCOUNTANTS' REPORT

Village of Edgerton  
Williams County  
217 East River Street, P.O. Box 609  
Edgerton, Ohio 43517-0609

To the Village Council:

We have audited the accompanying financial statements of the Village of Edgerton, Williams 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. 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 governments 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 Edgerton, Williams 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.

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As described in Note 1.F., 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 September 5, 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.

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

**Dave Yost**  
Auditor of State

September 5, 2012

**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, 2011**

|  | General           | Special<br>Revenue | Capital<br>Projects | Totals<br>(Memorandum<br>Only) |
|--|-------------------|--------------------|---------------------|--------------------------------|
| <b>Cash Receipts</b>                         |                   |                    |                     |                                |
| Property and Other Local Taxes               | \$186,008         | \$52,943           |                     | \$238,951                      |
| Municipal Income Tax                         | 267,412           |                    | \$143,991           | 411,403                        |
| Intergovernmental                            | 153,377           | 107,748            | 30,074              | 291,199                        |
| Charges for Services                         | 51,917            |                    |                     | 51,917                         |
| Fines, Licenses and Permits                  | 9,550             | 2,997              |                     | 12,547                         |
| Earnings on Investments                      | 2,074             | 230                |                     | 2,304                          |
| Loan Repayments                              |                   | 33,631             |                     | 33,631                         |
| Miscellaneous                                | 28,143            |                    |                     | 28,143                         |
| <i>Total Cash Receipts</i>                   | <u>698,481</u>    | <u>197,549</u>     | <u>174,065</u>      | <u>1,070,095</u>               |
| <b>Cash Disbursements</b>                    |                   |                    |                     |                                |
| Current:                                     |                   |                    |                     |                                |
| Security of Persons and Property             | 445,155           | 82,994             |                     | 528,149                        |
| Public Health Services                       | 5,884             |                    |                     | 5,884                          |
| Leisure Time Activities                      | 29,631            |                    |                     | 29,631                         |
| Community Environment                        | 7,148             |                    |                     | 7,148                          |
| Transportation                               | 76,920            | 142,650            |                     | 219,570                        |
| General Government                           | 208,374           | 1,414              | 25,771              | 235,559                        |
| Capital Outlay                               |                   | 34,884             | 230,452             | 265,336                        |
| <i>Total Cash Disbursements</i>              | <u>773,112</u>    | <u>261,942</u>     | <u>256,223</u>      | <u>1,291,277</u>               |
| <i>Excess of Disbursements Over Receipts</i> | <u>(74,631)</u>   | <u>(64,393)</u>    | <u>(82,158)</u>     | <u>(221,182)</u>               |
| <b>Other Financing Receipts</b>              |                   |                    |                     |                                |
| Other Financing Sources                      |                   |                    | 3,250               | 3,250                          |
| <i>Net Change in Fund Cash Balances</i>      | <u>(74,631)</u>   | <u>(64,393)</u>    | <u>(78,908)</u>     | <u>(217,932)</u>               |
| <i>Fund Cash Balances, January 1</i>         | <u>64,299</u>     | <u>305,466</u>     | <u>235,434</u>      | <u>605,199</u>                 |
| <b>Fund Cash Balances, December 31</b>       |                   |                    |                     |                                |
| Restricted                                   |                   | 241,073            | 2                   | 241,075                        |
| Committed                                    |                   |                    | 156,524             | 156,524                        |
| Unassigned (Deficit)                         | <u>(10,332)</u>   |                    |                     | <u>(10,332)</u>                |
| <i>Fund Cash Balances, December 31</i>       | <u>(\$10,332)</u> | <u>\$241,073</u>   | <u>\$156,526</u>    | <u>\$387,267</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, 2011**

|   | Enterprise         |
|---|--------------------|
| <b>Operating Cash Receipts</b>                      |                    |
| Charges for Services                                | \$3,120,878        |
| Miscellaneous                                       | 61,157             |
|   | 3,182,035          |
| <i>Total Operating Cash Receipts</i>                | <i>3,182,035</i>   |
| <b>Operating Cash Disbursements</b>                 |                    |
| Personal Services                                   | 531,675            |
| Contractual Services                                | 2,021,133          |
| Supplies and Materials                              | 247,367            |
|   | 2,800,175          |
| <i>Total Operating Cash Disbursements</i>           | <i>2,800,175</i>   |
| <i>Operating Income</i>                             | <i>381,860</i>     |
| <b>Non-Operating Receipts (Disbursements)</b>       |                    |
| Property and Other Local Taxes                      | 6,204              |
| Sale of Bonds                                       | 521,678            |
| Capital Outlay                                      | (56,478)           |
| Principal Retirement                                | (701,000)          |
| Interest and Other Fiscal Charges                   | (29,451)           |
| Other Financing Sources                             | 8,420              |
| Other Financing Uses                                | (12,624)           |
|   | (263,251)          |
| <i>Total Non-Operating Receipts (Disbursements)</i> | <i>(263,251)</i>   |
| <i>Net Change in Fund Cash Balances</i>             | <i>118,609</i>     |
| <i>Fund Cash Balances, January 1</i>                | <i>2,211,058</i>   |
| <i>Fund Cash Balances, December 31</i>              | <i>\$2,329,667</i> |

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

**VILLAGE OF EDGERTON  
WILLIAMS 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 Edgerton, Williams County, Ohio (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 village maintenance.

The Village participates in four joint ventures and three long term purchase commitments. Notes 10, 11, 12, 13, and 14 to the financial statements provides additional information for these entities. 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

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 its repurchase agreement 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:

VILLAGE OF EDGERTON  
WILLIAMS COUNTY

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

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

1. **General Fund**

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

2. **Special Revenue Funds**

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

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

Fire Levy Fund – This fund receives property tax monies to help provide fire protection services to the community.

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:

Income Tax Capital Improvement Fund – This fund receives proceeds from an income tax levy to acquire property and equipment and to construct capital improvements.

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:

Sewer Maintenance Operating Fund - This fund receives charges for services from residents to cover sanitary 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 be budgeted annually.

VILLAGE OF EDGERTON  
WILLIAMS COUNTY

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

1. Summary of Significant Accounting Policies (Continued)

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund/department level in the General Fund and at the fund level for all other funds, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Village did not encumber all commitments required by Ohio law.

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.

VILLAGE OF EDGERTON  
WILLIAMS COUNTY

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

1. Summary of Significant Accounting Policies (Continued)

4. Assigned

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

5. Unassigned

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

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

G. Property, Plant, and Equipment

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

H. Accumulated Leave

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

2. Equity in Pooled Deposits and Investments

The Village maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31, 2011 was as follows:

|                                |                           |
|--------------------------------|---------------------------|
| Demand deposits                | \$56,426                  |
| Repurchase agreement           | <u>2,660,508</u>          |
| Total deposits and investments | <u><u>\$2,716,934</u></u> |

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation.

**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. This investment is contrary to the Village's investment policy which does not allow investment in repurchase agreements.

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**3. Budgetary Activity**

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

| 2011 Budgeted vs. Actual Receipts |                      |                    |             |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance    |
| General                           | \$777,040            | \$698,481          | (\$78,559)  |
| Special Revenue                   | 235,550              | 197,549            | (38,001)    |
| Capital Projects                  | 136,000              | 177,315            | 41,315      |
| Enterprise                        | 3,837,250            | 3,718,337          | (118,913)   |
| Total                             | \$4,985,840          | \$4,791,682        | (\$194,158) |

| 2011 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |             |
|---|----------------------------|---------------------------|-------------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance    |
| General   | \$952,750                  | \$773,112                 | \$179,638   |
| Special Revenue                                       | 411,500                    | 261,942                   | 149,558     |
| Capital Projects                                      | 390,000                    | 256,223                   | 133,777     |
| Enterprise  | 5,278,400                  | 3,599,728                 | 1,678,672   |
| Total   | \$7,032,650                | \$4,891,005               | \$2,141,645 |

Contrary to Ohio law, appropriations exceeded estimated resources in the General, Street Construction, Maintenance and Repair, Income Tax Capital Improvements, Recycling, and Garbage funds by \$83,310, \$11,588, \$23,659, \$8,888 and \$9,470, respectively, and budgetary expenditures exceeded appropriations in the Auto License Tax, Fire Levy, Driving Under Influence, and Sewer Maintenance Operating funds by \$13,731, \$14,334, \$702 and \$37,313, respectively. In addition, adjustments for reclassifications of expenditures made from restricted funds resulted in a negative fund balance in the General Fund in the amount of \$10,332. The Village has no plan in place to eliminate this negative fund cash balance.

**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.

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**5. Local Income Tax**

The Village levies a municipal income tax of one 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.

**6. Long Term Debt**

Debt outstanding at December 31, 2011 was as follows:

|                                  | <u>Principal</u>   | <u>Interest Rate</u> |
|----------------------------------|--------------------|----------------------|
| Electric System Improvement Loan | \$1,080,000        | 2.75%                |
| Real Estate Purchase Agreement   | 240,000            |                      |
| Total                            | <u>\$1,320,000</u> |                      |

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 twenty (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 thirty (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.

The Village entered into a real estate purchase agreement on November 24, 2009 with the Edgerton Local School District (the District) in the amount of \$250,000. The property being purchased is a portion of the former elementary school and will house the future Village offices. Per the agreement, the Village has made a down payment of \$10,000 and will pay the District \$90,000 at closing which shall be no later than November 11, 2012. The Village will then remit a payment of \$15,000 annually upon the anniversary date of the closing for a period of ten years.

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**6. Long Term Debt (Continued)**

Amortization of the real estate purchase agreement is scheduled as follows:

|                          |                         |
|--------------------------|-------------------------|
| Year ending December 31: |                         |
| 2012                     | \$90,000                |
| 2013                     | 15,000                  |
| 2014                     | 15,000                  |
| 2015                     | 15,000                  |
| 2016                     | 15,000                  |
| 2017-2021                | 75,000                  |
| 2022                     | 15,000                  |
| Total                    | <u><u>\$240,000</u></u> |

**7. Short Term Debt**

The Village issued Sanitary Sewer Refunding Bond Anticipation Notes, Series 2011 in the amount of \$521,000 during 2011. These notes which mature on January 26, 2012, had an interest rate of 2.00 percent. 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, trunk 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 2011, OP&F participants contributed 10 percent of their wages and the Village contributed to OP&F an amount equal to 19.5 percent of full-time police members' wages. For 2011, OPERS members contributed 10 percent of their gross salaries and the Village contributed an amount equaling 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

**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.

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**10. Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2)**

The Village is a Non-Financing Participant and an Owner Participant with an ownership percentage of 1.09 percent 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, 2011, the outstanding debt was \$23,633,931. The Village's net investment in OMEGA JV2 was \$318,267 at December 31, 2011. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**10. Ohio Municipal Electric Generation Agency Joint Venture 2 (JV2) (Continued)**

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2011 are:

| 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        | 0.79%             | 1,066          | Custar         | 0.00%             | 4              |
|                | 95.20%            | 127,640        |                | 4.80%             | 6,441          |
|                |                   |                | Grand Total    | 100.00%           | 134,081        |

**11. Ohio Municipal Electric Generation Agency Joint Venture 4 (JV4)**

The Village is a participant, with three other subdivisions within the State of Ohio, in a joint venture to oversee construction and operation of a 69 kilowatt transmission line in Williams County, the Ohio Municipal Electric Generation Agency Joint Venture (JV4). JV4 is managed by AMP-Ohio, who acts as the joint venture's agent. The participants are obligated, by agreement to remit on a monthly basis those cost incurred from using electric generated by the joint venture. JV4 does not have any debt outstanding. In the event of a shortfall, the Joint Venture participants are billed for their respective shares of the estimated shortfall.

The Villages net investment in JV4 was \$59,867 at December 31, 2011. Complete financial statements for JV4 may be obtained from AMP-Ohio or from the Auditor of State of Ohio website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**12. Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)**

The Village is a Financing Participant with an ownership percentage of .92 percent, 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.

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, 2011, the Village has met their 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 \$97,714 at December 31, 2011. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**13. Ohio Municipal Electric Generation Agency Joint Venture 6 (JV6)**

The Village is a Financing Participant with an ownership percentage of 1.39 percent, 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.

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, 2011, the Village has met their 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 \$119,436 at December 31, 2011. Complete financial statements for OMEGA JV6 may be obtained from AMP or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**13. Ohio Municipal Electric Generation Agency Joint Venture 6 (JV6) (Continued)**

The ten participating subdivisions and their respective ownership shares at December 31, 2011 are:

| Participant    | KW Amount | % of Financing |
|----------------|-----------|----------------|
| Bowling Green  | 4,100     | 56.94%         |
| Cuyahoga Falls | 1,800     | 25.00%         |
| Napoleon       | 300       | 4.17%          |
| Oberlin        | 250       | 3.47%          |
| Wadsworth      | 250       | 3.47%          |
| Edgerton       | 100       | 1.39%          |
| Elmore         | 100       | 1.39%          |
| Montpelier     | 100       | 1.39%          |
| Pioneer        | 100       | 1.39%          |
| Monroeville    | 100       | 1.39%          |
| Total          | 7,200     | 100.00%        |

**14. Long Term Purchase Commitments**

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

On December 20, 2007, AMP acquired a 23.26% undivided ownership interest (the "PSEC Ownership Interest") in the Prairie State Energy Campus, 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.

From July 2008, through September 2010, AMP issued five series of Prairie State Energy Campus Revenue Bonds (the "Prairie State Bonds") to finance PSEC project costs and PSEC related expenses. The Prairie State Bonds consist of tax-exempt, taxable and tax advantaged Build America Bonds issued in the aggregate principal amount of \$1,696,800,000.

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 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. AMP Generating Station (AMPGS)**

The Village 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.

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**14. Long Term Purchase Commitments (Continued)**

**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 (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.

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.

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**14. Long Term Purchase Commitments (Continued)**

Based on an allocation to the Village 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 has a potential stranded cost obligation of \$163,555 for the AMPGS Project. The Village does not have any payments on deposit with AMP at December 31, 2011.

**AMP Fremont Energy Center (AFEC) Development Fee**

The AFEC Development Fee is the amount paid by AFEC participants to the AMPGS project as a Development Fee in August, 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC Participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board (Amended Minutes of May 3, 2011). The Village is a participant in the AFEC project and has received a credit to reduce its share of AMPGS potential stranded costs as noted below.

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the Village receives a credit of \$55,489 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 530 and the total kW share of those participating in both projects. The Village has not recorded this credit in its financial statements as of December 31, 2011.

**Recording of Stranded Costs**

The Village has not recorded stranded costs for the AMPGS Project.

The Village requested of AMP to incorporate the potential stranded cost liability into its monthly power cost invoices and recovered it directly from its customers through the Village's power costs adjustments over the months of February through May 2012.

Had the Village chosen to record the potential stranded costs as an expense, the Village believes it would have not violated its debt covenant obligations with OMEGA Joint Venture 5 and 6

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 Village Solicitor, information provided by AMP and its legal counsel with respect to the data, as well as the Village's audit team and Village management.

**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, are being constructed and will be operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects.

**VILLAGE OF EDGERTON  
WILLIAMS COUNTY**

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

**14. Long Term Purchase Commitments (Continued)**

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). 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. As of June 1, 2012, \$2,041,436,765 aggregate principal amount of the Combined Hydroelectric Bonds was outstanding.

The Village has passed appropriate legislation and executed a power sales contract to participate in this project and has been allocated 0.8 MW of this project.

**15. Segment Information for Enterprise Funds**

Included in the services provided by the Village financed primarily by user charges are refuse collection, water treatment and distribution, wastewater collection and treatment, and electric utility services. The key financial information for the electric utility services for the year ended December 31, 2011 is indicated below:

|   | <b>Electric Fund</b> | <b>Electric Substation Fund</b> | <b>Other Enterprise Funds</b> |
|---|----------------------|---------------------------------|-------------------------------|
| Operating Cash Receipts                           | \$ 2,537,146         |                                 | \$ 644,889                    |
| Debt Service                                      | 155,465              |                                 | 574,986                       |
| Capital Outlay                                    | 23,050               |                                 | 33,428                        |
| Operating Cash Disbursements                      | 2,206,235            |                                 | 593,940                       |
| Fund Cash Balances at December 31, 2011           | 2,101,161            | \$ 972                          | 227,534                       |
| Operating Income                                  | 330,911              |                                 | 50,949                        |
| Net Cash Receipts Over (Under) Cash Disbursements | 158,669              |                                 | (40,060)                      |
|   |                      |                                 |                               |

**16. Subsequent Events**

**A. Debt**

The bond anticipation notes (BAN) stipulated in Note 7 above were renewed in January 2012 for \$481,000. The BAN's will mature in January 2013.

**B. Contracts**

On August 6, 2012, Council awarded the following bids for the adaptive reuse of the former elementary school building for Village offices:

VILLAGE OF EDGERTON  
WILLIAMS COUNTY

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

16. Subsequent Events (Continued)

| <u>Contract</u>                  | <u>Bid Awarded To</u> | <u>Bid Amount</u> |
|----------------------------------|-----------------------|-------------------|
| Electrical – Contract A          | Wyse Electric         | \$83,310          |
| Electrical – Contract B          | Kingfish Electric     | 1,000             |
| Mechanical/Plumbing – Contract A | L.R. Babcock          | 210,200           |
| Mechanical/Plumbing – Contract B | L.R. Babcock          | 60,000            |
| General Trades – Contract A      | Midwest Contracting   | 285,600           |
| General Trades – Contract B      | Thiel Construction    | 55,620            |



# 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 Edgerton  
Williams County  
217 East River Street, P.O. Box 609  
Edgerton, Ohio 43517-0609

To the Village Council:

We have audited the financial statements of the Village of Edgerton, Williams County, Ohio (the Village), as of and for the year ended December 31, 2011, and have issued our report thereon dated September 5, 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. 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 certain deficiencies in internal control over financial reporting, that we consider material weaknesses 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 findings 2011-002 and 2011-006 through 2011-008 described in the accompanying schedule of findings to be material weaknesses.

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 2011-009 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 instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2011-001 through 2011-005.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 5, 2012.

We intend this report solely for the information and use of management, the audit committee, Village Council, 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

September 5, 2012

VILLAGE OF EDGERTON  
WILLIAMS COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2011

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

FINDING NUMBER 2011-001

**Noncompliance Citation**

**Ohio Revised Code, § 5705.41(D)(1)**, states that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required for the order or contract has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such 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 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 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 an appropriate fund free from any previous encumbrances, the Village Council can authorize the drawing of a warrant for the payment of the amount due. The Village Council 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 Village Council.

2. **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.
3. **Super Blanket Certificate** – The Village Council 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 may, but need not, be limited to a specific vendor. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

None of the transactions tested were certified by the Fiscal Officer at the time the commitments were incurred and there was no evidence any of the exceptions noted above had been used. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

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

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 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 the Fiscal Officer certify the funds are or will be available prior to obligation by the Village. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5705.41(D) of the Ohio Revised Code applies. The most convenient certification method is to use purchase orders that include the certification language that section 5705.41(D) of the Ohio Revised Code requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Village incurs a commitment, and only when the requirements of section 5705.41(D) of the Ohio Revised Code are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**FINDING NUMBER 2011-002**

**Noncompliance Citation/Material Weakness**

**Ohio Revised Code, § 5705.10**, states that money paid into any fund shall be used only for the purposes for which such fund is established.

The following payments posted to the Electric Fund were determined to be inconsistent with the purpose of the Electric Fund:

|  | Amount             |
|--|--------------------|
| Purpose of Expenditure                   | Charged            |
| Codification services, internet hosting  | \$ 1,710.00        |
| Income Tax Forms (W-2, 1099) & envelopes | 247.50             |
| Arbor Day Tree Planting                  | 236.45             |
| Codification services                    | 2,656.56           |
|  | <u>\$ 4,850.51</u> |

The following payments were reallocated on December 31, 2011 to a fund whose purpose was inconsistent with the nature of the expenditure made or for which no supporting documentation could be located to substantiate the reallocation:

**FINDING NUMBER 2011-002  
 (Continued)**

| Expenditure Description                           | Amount Charged      | Original        | Reallocated | Reallocated         |
|---|---------------------|-----------------|-------------|---------------------|
|   |                     | Allocation Fund | Fund        | Amount              |
| Ice Melt, Spreader - Street Dept                  | \$ 587.01           | General         | Water       | \$ 350.67           |
| ^   | 465.00              | General         | SMO         | 350.67              |
| ^   | ^                   | General         | Electric    | 350.67              |
| Commercial Liability Insurance - Police Dept      | 9,250.00            | General         | Electric    | 750.00              |
| Commercial Liability Insurance - Fire Dept        | ^                   | General         | Electric    | 4,500.00            |
| Commercial Liability Insurance - Street Dept      | ^                   | General         | Electric    | 2,000.00            |
| Commercial Liability Insurance - Land & Buildings | ^                   | General         | Electric    | 2,000.00            |
| Meter Billing Forms - Recycling                   | 333.89              | Recycling       | Electric    | 166.94              |
| Meter Billing Forms - Garbage                     | ^                   | Garbage         | Electric    | 166.95              |
| VPN Software - Clerk                              | 200.25              | General         | Electric    | 89.00               |
| Removal of Virus - Clerk                          | ^                   | General         | Electric    | 111.25              |
| Software License Renewal & Support- Clerk         | 800.00              | General         | Electric    | 400.00              |
| ^   | ^                   | General         | Electric    | 400.00              |
| 2011 Heritage Ohio Dues                           | 150.00              | General         | Electric    | 150.00              |
| Software License Renewal & Support- Clerk         | 200.00              | General         | Electric    | 200.00              |
| Stone - Street Dept                               | 1,119.66            | General         | Water       | 558.83              |
| ^   | ^                   | General         | SMO         | 560.83              |
| Monthly Natural Gas Usage - Police Dept           | 6,434.84            | General         | Electric    | 6,434.84            |
|   | <u>\$ 19,540.65</u> |                 |             | <u>\$ 19,540.65</u> |

The errors noted above have the following effect on fund expenditures and fund balances:

- General Fund (A1): Understated \$24,057.27
- Recycling Fund (E11): Understated \$166.94
- Garbage Fund (E12): Understated \$166.95
- Electric Fund (E3): Overstated \$22,570.16
- Water Fund (E1): Overstated \$909.50
- Sewer Maintenance Operation Fund (E2): Overstated \$911.50

As a result of the above adjustment, the General Fund had a deficit fund balance at December 31, 2012.

We recommend Council and the Fiscal Officer perform a detailed review of each check and the supporting documentation including a review of funds charged before approving the disbursement and signing the check. If the initial account allocation of an expenditure is deemed incorrect, appropriate documentation should be maintained to support the reallocation of the expenditure.

The Village has adjusted the accompanying financial statements and its accounting records to correct these errors.

**FINDING NUMBER 2011-003**

**Noncompliance Citation**

**Ohio Revised Code, § 5705.39**, states that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure there from, as certified by the budget commission, or in case of appeal, by the board of tax appeals. For purposes of this section of the Ohio Revised Code, estimated revenue is commonly referred to as “estimated resources” because it includes unencumbered fund balances.

Appropriations exceeded total estimated resources in the following funds:

| <u>Fund</u>                                 | <u>Estimated Resources</u> | <u>Appropriations</u> | <u>Differences</u> |
|---|----------------------------|-----------------------|--------------------|
| General                                     | \$869,440                  | \$952,750             | (\$83,310)         |
| Street Construction, Maintenance and Repair | 113,412                    | 125,000               | (11,588)           |
| Income Tax Capital Improvements             | 366,341                    | 390,000               | (23,659)           |
| Recycling                                   | 39,112                     | 48,000                | (8,888)            |
| Garbage                                     | 110,530                    | 120,000               | (9,470)            |

Allowing appropriations to remain higher than estimated resources increases the possibility appropriations may be unrealistically inflated, which could result in deficit spending.

Management officials should monitor estimated resources and appropriations throughout the year and make the necessary modifications, with approval of Council, to avoid appropriations exceeding estimated resources and potential overspending.

**FINDING NUMBER 2011-004**

**Noncompliance Citation**

**Ohio Revised Code, § 5705.41(B)**, states that no subdivision or taxing unit is to expend money unless it has been appropriated. The following funds had expenditures which exceeded appropriations:

| <u>Fund</u>                 | <u>Appropriations</u> | <u>Expenditures</u> | <u>Differences</u> |
|-----------------------------|-----------------------|---------------------|--------------------|
| Auto License Tax            | \$20,000              | \$33,731            | \$(13,731)         |
| Fire Levy                   | 97,500                | 111,834             | (14,334)           |
| Driving Under Influence     | 2,000                 | 2,702               | (702)              |
| Sewer Maintenance Operating | 55,000                | 92,313              | (37,313)           |

The failure to limit expenditures to appropriated amounts may result deficit spending.

The Village should periodically compare expenditures and encumbrances to appropriations to determine if a modification to appropriations is necessary.

#### **FINDING NUMBER 2011-005**

##### **Noncompliance Citation**

**Village of Edgerton Codified Ordinances § 13302 titled, Investment Policy**, states the investment of Village active, interim and inactive funds shall be in checking accounts, savings accounts and time certificates of deposit in such amounts and for such maturities as are permitted in Ohio Revised Chapter 135 with public depositories described in Ohio Revised Code § 135.03. The Village maintained an overnight sweep account with Huntington Bank during the audit period. The overnight sweep, which is approximately 97% of the Village's total deposits, is into a repurchase agreement which is unallowable according to the Village's investment policy.

We recommend the Village either amend the policy to allow for such investments or immediately discontinue such investments.

#### **FINDING NUMBER 2011-006**

##### **Material Weakness – Recording “On-Behalf-Of” Grants**

In 2011, Issue II grant monies, in the amount of \$30,074, were expended directly to contractors on behalf of the Village. These monies were not recorded in the Village's financial statements. Since the Ohio Public Works Commission paid the invoices, the Village did not receive this cash. However, Auditor of State Bulletin 2000-008 and 2002-004 prescribe recording these transactions as receipts and disbursements when the Village applies for a project and has administrative responsibilities. The accompanying financial statements and budgetary activity were adjusted to reflect these amounts in a Capital Project Fund.

We recommend the Village record all benefits received from state or federal grants as a memo receipt and expenditure on the Village's records. In addition, Village management should review Auditor of State Bulletins 2000-008 and 2002-004.

#### **FINDING NUMBER 2011-007**

##### **Material Weakness – Financial Reporting**

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustments.

1. Loan repayments in the Revolving Loan fund of \$27,031 were recorded as Other Debt Proceeds (\$23,664) and Earnings on Investments (\$3,367). These should have been recorded as Loan Repayments.
2. Expenditures reductions in the Street Construction, Maintenance, and Repair fund of \$23,664 were recorded as positive Other Financing Uses. These should have been recorded as a reduction of Transportation expenditures.
3. Expenditures for payroll, fringe benefits, solicitor work, supplies and materials, and refunds in the Income Tax Capital Improvement Fund of \$25,771 were recorded as Capital Outlay expenditures. These should have been recorded as General Government expenditures.

These adjustments have been posted to the accompanying financial statements.

**FINDING NUMBER 2011-007  
(Continued)**

Sound financial reporting is the responsibility of the Fiscal Officer and the Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Council, to identify and correct errors and omissions. The Fiscal Officer should also review the Village Handbook.

**FINDING NUMBER 2011-008**

**Material Weakness – Timely Posting of Transactions and Reconciling of Bank Accounts**

Strong accounting controls require receipt and disbursement transactions be posted to the Village's computer system as they occur. In addition, bank accounts should be accurately reconciled to book balances on a monthly basis. During 2011, the Village's computer postings and bank reconciliations were not performed on a timely basis.

Some 2011 transactions were not posted to the accounting records until after the end of the fiscal year (December 31, 2011). The December 31, 2011 bank reconciliation was completed several weeks after year end. This reconciliation indicated that bank balances were greater than book balances at December 31, 2011 by \$1,686. The adjustment has been made to the accounting records and financial statements for this difference.

Subsequent to our audit period, the practice of posting transactions and completing bank reconciliations has still not been implemented in a timely manner. As of August 31, 2012, only the January and February 2012 reconciliations have been completed and presented to Council.

Accurate fund balances are not known if the Village does not post transactions and reconcile its accounts on a timely basis. Failure to post all transactions and to reconcile the Village's fiscal records to bank balances on a timely basis increases the risk of unauthorized or inaccurate transactions, undetected errors and loss or misappropriation of funds occurring without timely detection.

Reconciliations are an effective tool to help management determine the completeness of recorded transactions and verify that all recorded transactions have been properly posted to the bank and all transactions with the bank have been recorded on the Village's fiscal records and financial statements.

In order to strengthen accountability over the Village's financial activity and reconciliation process, we recommend transactions be posted in a timely manner. The Fiscal Officer should investigate and correct any unknown variances before closing the current month's activities. Village Council should closely review and scrutinize monthly bank reconciliations. This review should be clearly documented in the Village's minute record as well as on the bank reconciliations.

**FINDING NUMBER 2011-009**

**Significant Deficiency – Fund Balance Reporting**

Governmental Accounting Standards Board (GASB) Statement No. 54 established criteria for reporting governmental fund balances based on constraints placed upon the use of resources reported in the governmental funds. The five classifications are nonspendable, restricted, committed, assigned, and unassigned.

Committed resources include amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (such as an ordinance or resolution).

**FINDING NUMBER 2011-009  
(Continued)**

Assigned resources are intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.

Council has authorized by ordinance that a portion of income tax monies be used for capital projects. The amounts have been placed into the Income Tax Capital Improvements Fund. The Village reported the fund balance of \$154,928 as "assigned" instead of "committed."

An adjustment in the amount of \$154,928 was made to reclassify the Income Tax Capital Improvements fund balance from "assigned" to "committed."

In order to ensure the Village's governmental fund balances are reported in accordance with GASB 54, we recommend the Village review Auditor of State Bulletin 2011-004.

**Officials' Response:**

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

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**VILLAGE OF EDGERTON  
WILLIAMS 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; <b><i>Explain</i></b> |
|----------------|---|------------------|--|
| 2010-001       | Ohio Revised Code § 5705.09 (F) – Failure to account for OPWC on-behalf-of grant.                       | No               | Prior finding no longer valid. Reported as a material weakness in Finding 2011-006 in this report.                                     |
| 2010-002       | Ohio Revised Code § 5705.41(D)(1) – Lack of fiscal officer certifications for expenditures.             | No               | Not Corrected - Reissued as Finding 2011-001 in this report.   |
| 2010-003       | Ohio Revised Code § 5705.41(B) – Expenditures in excess of appropriations.                              | No               | Not Corrected - Reissued as Finding 2011-004 in this report.   |
| 2010-004       | Financial Reporting - Certain accounting errors required audit adjustments to the financial statements. | No               | Not Corrected - Reissued as Finding 2011-007 in this report.   |
| 2010-005       | Material Weakness – Timely Posting of Transactions and Reconciling of Bank Accounts                     | No               | Not Corrected - Reissued as Finding 2011-008 in this report.   |

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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  
OCTOBER 02, 2012