



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:

## ***Report on the Financial Statements***

We have audited the accompanying financial statements and related notes of the Village of Deshler, Henry County, Ohio (the Village) as of and for the years ended December 31, 2013 and 2012.

## ***Management's Responsibility for the Financial Statements***

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

## ***Auditor's Responsibility***

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

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

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

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

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38

and Ohio Administrative Code Section 117-2-03 (D), which is an accounting basis other than accounting principles generally accepted in the United States of America, to satisfy requirements.

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

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013 and 2012, or changes in financial position or cash flows thereof for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Deshler, Henry County, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

***Other Reporting Required by Village Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2014, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



**Dave Yost**  
Auditor of State

Columbus, Ohio

August 26, 2014

**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, 2013**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$62,532	\$5,240	\$5,688	\$73,460
Municipal Income Tax		278,290		278,290
Intergovernmental	117,078	68,327		185,405
Charges for Services	2,700			2,700
Fines, Licenses and Permits	11,935			11,935
Earnings on Investments	6,943	7		6,950
Miscellaneous	70,575	10		70,585
<i>Total Cash Receipts</i>	<u>271,763</u>	<u>351,874</u>	<u>5,688</u>	<u>629,325</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	165,386			165,386
Public Health Services	6,000			6,000
Leisure Time Activities	1,672	5,002		6,674
Community Environment	7,349			7,349
Basic Utility Services	1,842			1,842
Transportation	1,000	84,509		85,509
General Government	61,715	55,737		117,452
Capital Outlay	41,381	15,458	240,309	297,148
Debt Service:				
Principal Retirement	12,364		10,780	23,144
Interest and Fiscal Charges	570			570
<i>Total Cash Disbursements</i>	<u>299,279</u>	<u>160,706</u>	<u>251,089</u>	<u>711,074</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(27,516)</u>	<u>191,168</u>	<u>(245,401)</u>	<u>(81,749)</u>
<b>Other Financing Receipts (Disbursements)</b>				
Other Debt Proceeds			517,762	517,762
Transfers In	100,000	5,000	10,780	115,780
Transfers Out	(70,122)	(125,780)		(195,902)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>29,878</u>	<u>(120,780)</u>	<u>528,542</u>	<u>437,640</u>
<i>Net Change in Fund Cash Balances</i>	2,362	70,388	283,141	355,891
<i>Fund Cash Balances, January 1</i>	<u>179</u>	<u>281,746</u>	<u>31,508</u>	<u>313,433</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		352,134	314,649	666,783
Unassigned	2,541			2,541
<i>Fund Cash Balances, December 31</i>	<u>\$2,541</u>	<u>\$352,134</u>	<u>\$314,649</u>	<u>\$669,324</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, 2013**

	Enterprise
<b>Operating Cash Receipts</b>	
Charges for Services	\$3,276,718
<b>Operating Cash Disbursements</b>	
Personal Services	559,915
Employee Fringe Benefits	165,615
Contractual Services	1,847,223
Supplies and Materials	183,437
Other	16,258
<i>Total Operating Cash Disbursements</i>	2,772,448
<i>Operating Income</i>	504,270
<b>Non-Operating Receipts (Disbursements)</b>	
Miscellaneous Receipts	67,815
Capital Outlay	(232,326)
Principal Retirement	(203,072)
Interest and Other Fiscal Charges	(17,815)
<i>Total Non-Operating Receipts (Disbursements)</i>	(385,398)
<i>Income before Transfers</i>	118,872
Transfers In	80,122
<i>Net Change in Fund Cash Balances</i>	198,994
<i>Fund Cash Balances, January 1</i>	2,107,854
<i>Fund Cash Balances, December 31</i>	\$2,306,848

*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)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
<b>Cash Receipts</b>				
Property and Other Local Taxes	\$122,144	\$27,788	\$5,542	\$155,474
Municipal Income Tax		243,208		243,208
Intergovernmental	81,728	68,201	10,685	160,614
Charges for Services	2,500			2,500
Fines, Licenses and Permits	17,762			17,762
Earnings on Investments	3,317	122		3,439
Miscellaneous	10,524	178		10,702
<i>Total Cash Receipts</i>	<u>237,975</u>	<u>339,497</u>	<u>16,227</u>	<u>593,699</u>
<b>Cash Disbursements</b>				
Current:				
Security of Persons and Property	165,808			165,808
Public Health Services	6,000			6,000
Leisure Time Activities	7,498	4,714		12,212
Community Environment	7,317			7,317
Basic Utility Services	1,344			1,344
Transportation	1,000	78,648		79,648
General Government	76,292	55,815		132,107
Capital Outlay	40,837	71,279	768,454	880,570
<i>Total Cash Disbursements</i>	<u>306,096</u>	<u>210,456</u>	<u>768,454</u>	<u>1,285,006</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(68,121)</u>	<u>129,041</u>	<u>(752,227)</u>	<u>(691,307)</u>
<b>Other Financing Receipts (Disbursements)</b>				
Other Debt Proceeds			532,375	532,375
Transfers In	130,000	50,000	141,438	321,438
Transfers Out	(64,760)	(321,438)		(386,198)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>65,240</u>	<u>(271,438)</u>	<u>673,813</u>	<u>467,615</u>
<i>Net Change in Fund Cash Balances</i>	<u>(2,881)</u>	<u>(142,397)</u>	<u>(78,414)</u>	<u>(223,692)</u>
<i>Fund Cash Balances, January 1</i>	<u>3,060</u>	<u>424,143</u>	<u>109,922</u>	<u>537,125</u>
<b>Fund Cash Balances, December 31</b>				
Restricted		281,746	31,508	313,254
Unassigned	179			179
<i>Fund Cash Balances, December 31</i>	<u>\$179</u>	<u>\$281,746</u>	<u>\$31,508</u>	<u>\$313,433</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)  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Proprietary Fund Type	Fiduciary Fund Type
	Enterprise	Agency
<b>Operating Cash Receipts</b>		
Charges for Services	\$3,067,171	
<b>Operating Cash Disbursements</b>		
Personal Services	557,489	
Employee Fringe Benefits	178,375	
Contractual Services	1,867,452	
Supplies and Materials	229,997	
Other	13,704	\$34,566
<i>Total Operating Cash Disbursements</i>	2,847,017	34,566
<i>Operating Income (Loss)</i>	220,154	(34,566)
<b>Non-Operating Receipts (Disbursements)</b>		
Miscellaneous Receipts	43,654	34,566
Capital Outlay	(91,419)	
Principal Retirement	(226,514)	
Interest and Other Fiscal Charges	(13,711)	
<i>Total Non-Operating Receipts (Disbursements)</i>	(287,990)	\$34,566
<i>Loss before Transfers</i>	(67,836)	
Transfers In	64,760	
<i>Net Change in Fund Cash Balances</i>	(3,076)	
<i>Fund Cash Balances, January 1</i>	2,110,930	
<i>Fund Cash Balances, December 31</i>	\$2,107,854	

*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, 2013 AND 2012**

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

The Village participates in the Ohio Plan Risk Management, Inc. (OPRM), public entity risk pool.

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

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

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

**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.

Memorial Park Fund – This fund receives levy revenue and income tax transfers to fund construction of the park

State Highway Fund – This fund receives money from the State for repairing State Highway.

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

Income Tax Fund – This fund receives money from residents and individuals who live and work in the Village limits.

**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 Funds:

Swimming Pool Capital Improvements – This fund receives money through a levy for capital improvements.

Sewer Capital Improvements – This fund receives money from loans and grant for new construction.

Water Capital Improvements – This fund receives loans and grant for the water capital improvements.

Main Street Revitalization – This fund received loan and grant money for Main St. Project.

Fire Dept. Capital Improvements – This fund received loan to purchase fire truck.

**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:

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

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

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.

Swimming Pool Fund – This fund receives charges for services from residents to swimming pool fees and money from income tax fund.

Gas Operating Fund – This fund receives charges for services from residents to cover service costs.

Deposit Fund – This fund receives charges for utility deposits from residents to cover service costs.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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.

**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 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. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2012 and 2013 budgetary activity appears in Note 3.

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

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

**F. Fund Balance**

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

The classifications are as follows:

**1. Nonspendable**

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

**2. Restricted**

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

**3. Committed**

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

**4. Assigned**

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

**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.

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

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

**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 deposits at December 31 was as follows:

	2012	2013
Demand deposits	\$1,558,792	\$2,150,057
Certificates of deposit	710,931	710,931
Municipal Gas Fund Loan	151,564	115,184
Total deposits	\$2,421,287	\$2,976,172

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

**3. Budgetary Activity**

Budgetary activity for the years ending December 2012 and 2013 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$423,262	\$367,975	(\$55,287)
Special Revenue	430,685	389,497	(41,188)
Capital Projects	640,900	690,040	49,140
Enterprise	3,569,900	3,175,585	(394,315)
Fiduciary	34,566	34,566	
Total	\$5,099,313	\$4,657,663	(\$441,650)

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**3. Budgetary Activity – (Continued)**

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$423,573	\$370,856	\$52,717
Special Revenue	725,435	531,894	193,541
Capital Projects	786,645	768,454	18,191
Enterprise	4,471,205	3,178,661	1,292,544
Fiduciary	34,566	34,566	
Total	\$6,441,424	\$4,884,431	\$1,556,993

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$438,000	\$371,763	(\$66,237)
Special Revenue	395,836	356,874	(38,962)
Capital Projects	586,658	534,230	(52,428)
Enterprise	3,834,019	3,424,655	(409,364)
Total	\$5,254,513	\$4,687,522	(\$566,991)

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$418,737	\$369,401	\$49,336
Special Revenue	663,993	286,486	377,506
Capital Projects	617,818	251,089	366,729
Enterprise	4,330,795	3,225,661	1,105,134
Total	\$6,031,343	\$4,132,637	\$1,898,705

**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.



**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**4. Property Tax – (Continued)**

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.

**6. Debt**

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan - Main Street Improvements	\$ 204,820	
Ohio Public Works Commission Loan - Well Field Development	28,811	
Department of Commerce Loan - Fire Truck	290,000	
Ford Motor Credit Company - Police Cruiser Lease	14,693	6.30%
Municipal Gas Loan	115,184	3.00%
Ohio Water Development Authority Loan - Sanitary Sewer Separation	1,100,509	
Ohio Water Development Authority Loan - Water Treatment Plant	1,280,619	
Ohio Water Development Authority Loan - Water Meters and Water Tower	326,988	3.45%
Ohio Water Development Authority Loan - WWTP and Collections Improvement	144,417	3.84%
<b>TOTALS</b>	<b>\$ 3,506,041</b>	

The Ohio Public Works Commission (OPWC) loan relates to a sewer plant expansion project. The loan was secured by revenues from the Village's sewer system.

The Ohio Public Works Commission (OPWC) Main Street Improvement loan relates to the main street revitalization project. This loan will be repaid in semi-annual payments of \$5,390 for 20 years. This loan is secured by the Village's income tax revenue.

The Ohio Public Works Commission (OPWC) Well Field Development loan relates to a well field development project. This loan will be repaid in semi-annual installments of \$960 for 20 year. The loan is secured by revenues from the Village's water system.

The Department of Commerce loan is for the purchase of a new fire truck. This loan will be repaid in quarterly payments of \$5,000 over a 15 period. This loan is secured by the revenues from the Village's income tax revenue.

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**6. Debt – (Continued)**

The Ford Motor Credit Company is a lease for a new 2013 police cruiser. This loan will be repaid in semi-annual payments of \$3,967. At the end of the lease, the Village has the option to purchase it for \$1. This loan is secured by the Village's income tax revenue.

The Municipal Gas Loan is an obligation of the Gas fund to the Electric fund for the purpose of initial capitalization of the gas system. The annual loan repayment commenced in 2012 after the gas system became operational and will continue on the anniversary day thereafter until principal is paid. The loan is secured by the revenues from the Gas 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 installed new taps to owners' properties. The loan will be repaid in semi-annual payments over 20 years. The loan is secured by revenues from the Village's sewer system.

The Ohio Water Development Authority (OWDA) Loan 5481 relates to an Environmental Protection Agency project for the construction of a water treatment plant. The loan will be repaid in semi-annual payments over 20 years. The loan is secured by revenues from the Village's water system.

The Ohio Water Development Authority (OWDA) Loan 6190 relates to the purchase of water meters and blasting and repainting of the existing water tower. The loan will be repaid in semi-annual payments over 30 years. The loan is secured by the revenues from the Village's water system.

The Ohio Water Development Authority (OWDA) Loan 6471 relates to the construction of a new wastewater lagoon, installation of a new sanitary force main, and the construction of a new pump station. The Village is still currently drawing on the loan. Once these projects have been completed, the loan will be repaid in semi-annual payments over 5 years. The loan is secured by the revenues from the Village's sanitary sewer system.

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

Year ending December 31:	OPWC Loans	Department of Commerce	Ford Motor Credit Company	Municipal Gas Loan	OWDA Loans
2014	\$12,701	\$60,000	\$7,933	\$48,436	\$328,721
2015	12,701	60,000	7,933	48,436	184,303
2016	12,701	60,000		48,436	184,303
2017	12,701	60,000			184,303
2018	12,701	50,000			184,303
2019-2023	170,126				1,975,883
Total	<u>\$233,631</u>	<u>\$290,000</u>	<u>\$15,866</u>	<u>\$145,308</u>	<u>\$3,041,816</u>

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(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 2012 and 2013, OP&F participants contributed 10% of their wages. For 2012 and 2013, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2012 and 2013, 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, 2013.

**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. The Mayor is the only elected official on social security. The Council's liability is 6.2 percent of wages paid.

**8. Risk Management**

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as 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 is legally separate from its member governments.

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.

OPRM coverage programs 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 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 774 members as of December 31, 2012 and 2013 respectively.

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

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

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 equity at December 31, 2012 and 2013

	<u>2012</u>	<u>2013</u>
Assets	\$13,100,381	\$13,774,304
Liabilities	<u>(6,687,193)</u>	<u>(7,968,395)</u>
Members' Equity	<u>\$6,413,188</u>	<u>\$5,805,909</u>

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**9. American Municipal Power Generating Station Project (2012) American Municipal Power Generating Station Project (2012)**

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, 2012, the type of generating asset has not been determined.

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**9. American Municipal Power Generating Station Project (2012) – (Continued)**

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, 2012 AMP has a regulatory asset of \$96,544,650 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, 2012 the Village of Deshler has a potential stranded cost obligation of \$171,138 for the AMPGS Project. The Village of Deshler has made payments of \$76,900, which are on deposit with AMP at December 31, 2012. Therefore, the Village's remaining unpaid potential stranded cost liability at December 31, 2012 is \$94,238.

**Recording of Stranded Costs**

As mentioned above, the Village of Deshler has requested from AMP invoices totaling \$76,900, a portion of their potential AMPGS stranded cost liability. The Village has paid that amount to AMP, expensing \$76,900 of it in 2012. The Village realizes that the AMPGS Project is still incurring costs beyond that amount.

Booking of this expense in 2012 resulted in the Village still passing its debt covenant obligation with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5/6/2.

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**9. American Municipal Power Generating Station Project (2012) – (Continued)**

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

**10. American Municipal Power Generating Station Project (2013)**

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 1,000 kilowatts of a total 771,281 kilowatts, giving the Village a 0.13 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed *impaired* and participants were obligated to pay costs already incurred. In prior years, payment of these costs was not made due to AMP's pursuit of legal action to void them. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share at March 31, 2014, of the impaired costs is \$172,913. The Village received a credit of \$45,225 related to the AMPGS costs deemed to have future benefit for the project participants, and made payments of \$143,800 leaving a net credit balance of impaired cost estimate of \$16,112. The Village will be leaving the credit balance with AMP to offset any additional costs in the future. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the Village's credit balance. These amounts will be recorded as they become estimable.

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

**11. Segment Information**

To provide electric service to the citizens, the Village is a member of the American Municipal Power (AMP) Ohio. The activity is accounted for in the Village's Electric Fund, which is reported as part of the combined Enterprise Fund Type in the financial statements. Summary financial information for the Electric Fund is presented below:

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**11. Segment Information – (Continued)**

	<b>2013</b>	<b>2012</b>
Total Assets	\$ 1,218,079	\$1,130,889
<b>Condensed Operating Information:</b>		
Operating Receipts		
Charges for Services	1,690,504	1,557,003
Operating Expenses	(1,659,943)	(1,590,476)
Operating Income (Loss)	30,561	(33,473)
Nonoperating Receipts (Disbursements)		
Miscellaneous Receipts	32,525	7,415
Capital Outlay	(46,007)	(16,470)
Transfers In	70,111	64,734
Change In Fund Cash Balance	87,190	22,206
Beginning Fund Cash Balance	1,130,889	1,108,683
Ending Fund Cash Balance	\$ 1,218,079	\$1,130,889
	<b>2013</b>	<b>2012</b>
<b>Condensed Cash Flow Information:</b>		
Net Cash Used by:		
Operating Activities	30,561	(33,473)
Noncapital Financing Activities	56,629	55,679
Net Increase	87,190	22,206
Beginning Fund Cash Balance	1,130,889	1,108,683
Ending Fund Cash Balance	\$ 1,218,079	\$1,130,889

**12. Transfers**

In 2012, the Village made the following transfers:

- General fund transferred \$64,734 to the Electric fund for inside kilowatt taxes and \$26 to the Electric Deposit fund.
- Income Tax fund transferred \$130,000 to the General fund; \$40,000 to the Street Construction fund; and \$10,000 to the Park and Recreation fund for general operating expenses.
- Income Tax fund transferred \$141,438 to the Main Street Renovation Capital Projects fund to help finance improvements to the Village's Main Street Improvements project.

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013 AND 2012  
(Continued)**

**12. Transfers – (Continued)**

In 2013, the Village made the following transfers:

- General fund transferred \$70,111 to the Electric fund for inside kilowatt taxes and \$11 to the Electric Deposit fund.
- Income Tax fund transferred \$100,000 to the General fund; \$5,000 to the Street Construction fund; and \$10,000 to the Pool fund for general operating expenses.
- Income Tax fund transferred \$10,780 to the Main Street Renovation Capital Projects fund to help finance improvements to the Village's Main Street Improvements project.

**13. Subsequent Event**

On August 25, 2014, Village Council passed an ordinance increasing the Village income tax from 0.75% to 1% starting with tax year 2015. The increase is expected to generate approximately \$65,000 annually.





# Dave Yost • Auditor of State

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

To the Village Council:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States *Government Auditing Standards*, the financial statements of the Village of Deshler, Henry County, Ohio (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements and have issued our report thereon dated August 26, 2014 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

## ***Internal Control Over Financial Reporting***

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001 described in the accompanying schedule of findings to be a material weakness.

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

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of

noncompliance or other matters we must report under *Government Auditing Standards*.

***Entity's Response to Findings***

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

***Purpose of this Report***

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

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

Columbus, Ohio

August 26, 2014

**VILLAGE OF DESHLER  
HENRY COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2013 AND 2012**

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

**FINDING NUMBER 2013-001**

**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.

The 2012 financial statements contained the following errors:

- Ohio Public Works Commission (OPWC) Main Street Revitalization loan proceeds of \$202,978 were incorrectly classified as "Other Financing Sources" instead of "Other Debt Proceeds" in the Main Street Revitalization Capital Projects fund.
- OPWC and Ohio Water Development Authority (OWDA) Water fund principal debt payments of \$92,672 were incorrectly classified as "Interest and Other Fiscal Charges" in the Water fund.
- The Electric fund's beginning fund balance was incorrectly adjusted by \$48,436 in conjunction with posting the manuscript debt payment between the Gas fund and Electric fund.
- OWDA Loan proceeds of \$58,466 for the Water Treatment Plant and Water Meters/Water Tower projects were incorrectly classified as "Intergovernmental Revenues" instead of "Other Debt Proceeds" in the Water Improvement Capital Projects fund.
- Inside kilowatt taxes paid to the General fund of \$64,022 were misclassified as "Intergovernmental Revenues" instead of "Taxes."

The 2013 financial statements contained the following errors:

- OWDA WWTP and Collection Improvement Project loan proceeds of \$142,155 were incorrectly classified as "Other Financing Sources" instead of "Other Debt Proceeds" in the Sewer Improvement fund.
- Department of Commerce Fire Truck loan proceeds of \$300,000 were incorrectly classified as "Intergovernmental Revenues" instead of "Other Debt Proceeds" in the Fire Truck Capital Projects fund.
- OPWC and Ohio Water Development Authority (OWDA) Water fund principal debt payments of \$60,269 were incorrectly classified as "Interest and Other Fiscal Charges" in the Water fund.
- Police cruiser lease payment of \$7,933 was incorrectly posted to "Capital Outlay" instead of "Principal Debt Payment" and "Interest and Other Fiscal Charges" in the General fund.
- Manuscript debt payment of \$43,034 between the Gas fund and Electric fund was incorrectly posted as "Loan Proceeds" as well as an incorrect Supplies and Materials expenditure posted for the same amount in the Electric fund.
- Inside kilowatt taxes paid to the General fund of \$64,022 were misclassified as "Intergovernmental Revenues" instead of "Taxes."
- Gasoline tax receipts (\$16,534), Motor Vehicle Registration receipts (\$1,341), and Permissive receipts totaling (\$4,740) were misposted as "Taxes" instead of "Intergovernmental Revenues."

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.

**Officials' Response:**

The Clerk-Treasurer will continue to monitor and implement changes to the financial statements.

**VILLAGE OF DESHLER  
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2013 AND 2012**

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>
2011-001	Monitoring financial statements due to errors in financial reporting.	No	Not corrected and reissued as Finding 2013-001 in this report.
2011-002	Significant deficiency for weaknesses in utility account delinquencies.	No	Partially corrected and reissued in the management letter.

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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  
SEPTEMBER 23, 2014**