



Dave Yost • Auditor of State

VILLAGE OF EDGERTON
WILLIAMS COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Edgerton
Williams County
324 North Michigan Avenue
P.O. Box 609
Edgerton, Ohio 43517-0609

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Edgerton, Williams County, Ohio (the Village) as of and for the year ended December 31, 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 of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03; 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, 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, 2012, or changes in financial position for the year then ended.

Opinion on Regulatory Basis of Accounting

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, The Village has suffered recurring losses from operations and has a net fund balance deficiency in the General fund. Note 18 describes Management's plans regarding these matters. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. This matter does not affect our opinion on these financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2013, 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 13, 2013

**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, 2012**

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$188,294	\$47,873		\$236,167
Municipal Income Tax	293,954		\$158,282	452,236
Intergovernmental	90,653	107,347		198,000
Charges for Services	38,924			38,924
Fines, Licenses and Permits	15,004	763		15,767
Earnings on Investments	1,228	136		1,364
Miscellaneous	40,999			40,999
<i>Total Cash Receipts</i>	<u>669,056</u>	<u>156,119</u>	<u>158,282</u>	<u>983,457</u>
Cash Disbursements				
Current:				
Security of Persons and Property	529,409	42,435		571,844
Leisure Time Activities	28,528			28,528
Community Environment	7,214			7,214
Transportation	90,713	112,942		203,655
General Government	176,727	3,012	25,539	205,278
Capital Outlay		32,809	256,199	289,008
<i>Total Cash Disbursements</i>	<u>832,591</u>	<u>191,198</u>	<u>281,738</u>	<u>1,305,527</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(163,535)</u>	<u>(35,079)</u>	<u>(123,456)</u>	<u>(322,070)</u>
Other Financing Receipts (Disbursements)				
Sale of Bonds			900,000	900,000
Loan Repayments		34,632		34,632
Other Financing Uses	(10,660)	(26,400)		(37,060)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(10,660)</u>	<u>8,232</u>	<u>900,000</u>	<u>897,572</u>
<i>Net Change in Fund Cash Balances</i>	<u>(174,195)</u>	<u>(26,847)</u>	<u>776,544</u>	<u>575,502</u>
<i>Fund Cash Balances, January 1</i>	<u>(10,332)</u>	<u>241,073</u>	<u>156,526</u>	<u>387,267</u>
Fund Cash Balances, December 31				
Restricted		220,666	714,390	935,056
Committed			218,680	218,680
Unassigned (Deficit)	(184,527)	(6,440)		(190,967)
<i>Fund Cash Balances, December 31</i>	<u>(\$184,527)</u>	<u>\$214,226</u>	<u>\$933,070</u>	<u>\$962,769</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, 2012**

	Enterprise
Operating Cash Receipts	
Charges for Services	\$3,043,448
Miscellaneous	51,841
	3,095,289
<i>Total Operating Cash Receipts</i>	<i>3,095,289</i>
Operating Cash Disbursements	
Personal Services	587,297
Contractual Services	1,968,522
Supplies and Materials	249,055
	2,804,874
<i>Total Operating Cash Disbursements</i>	<i>2,804,874</i>
<i>Operating Income</i>	<i>290,415</i>
Non-Operating Receipts (Disbursements)	
Property and Other Local Taxes	5,737
Sale of Bonds	481,184
Capital Outlay	(96,713)
Principal Retirement	(661,000)
Interest and Other Fiscal Charges	(24,616)
Other Financing Sources	11,480
Other Financing Uses	(17,263)
	(301,191)
<i>Total Non-Operating Receipts (Disbursements)</i>	<i>(301,191)</i>
<i>Net Change in Fund Cash Balances</i>	<i>(10,776)</i>
<i>Fund Cash Balances, January 1</i>	<i>2,329,667</i>
<i>Fund Cash Balances, December 31</i>	<i>\$2,318,891</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, 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 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 four 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
- American Municipal Power Fremont Energy Center

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

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

The Village values its repurchase agreement and Town Hall Improvement Bond at cost.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

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

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

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

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

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

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

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise 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.

VILLAGE OF EDGERTON
WILLIAMS COUNTY

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

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, 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 2012 budgetary activity appears in Note 3.

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

VILLAGE OF EDGERTON
WILLIAMS COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(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, 2012 was as follows:

Demand deposits	<u>\$23,257</u>
Repurchase agreement	2,358,403
Town Hall Improvement Bond	<u>900,000</u>
Total investments	<u>3,258,403</u>
Total deposits and investments	<u><u>\$3,281,660</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. The Electric Fund holds the Town Hall Improvement Bond identifying the Village as owner.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

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

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2012 follows:

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$625,000	\$669,056	\$44,056
Special Revenue	180,690	190,751	10,061
Capital Projects	146,000	1,058,282	912,282
Enterprise	3,643,600	3,593,690	(49,910)
Total	\$4,595,290	\$5,511,779	\$916,489

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$685,000	\$843,251	(\$158,251)
Special Revenue	301,450	217,598	83,852
Capital Projects	1,213,000	281,738	931,262
Enterprise	5,212,400	3,604,466	1,607,934
Total	\$7,411,850	\$4,947,053	\$2,464,797

Contrary to Ohio law, appropriations exceeded estimated resources in the General, Infrastructure, Income Tax Capital Improvement, Water, Sewer Maintenance Operating, Recycling, and Garbage funds by \$70,332, \$899,998, \$10,476, \$17,060, \$3,226, \$1,035, and \$5,165, respectively and budgetary expenditures exceeded appropriations in the General, Street Construction, Maintenance, and Repair, and Storm Sewer fund by \$158,251, \$16,850, and \$10,645, respectively. Also, contrary to Ohio Law, adjustments have been made for reclassifications of expenditures from restricted funds which contributed to cash deficit fund balances at December 31, 2012 in the General, Street Construction, Maintenance, and Repair, Storm Sewer, and Recycling funds of \$184,527, \$6,439, \$6,813, and \$1,498, respectively. The Village has prepared a financial recovery plan. See Note 18 regarding the plan.

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.

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, 2012
(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, 2012 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Town Hall Improvement General Obligation Bond	\$900,000	2.65%
Electric System Improvement Loan	940,000	1.25%
Total	<u>\$1,840,000</u>	

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

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

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

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

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

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

<u>Year ending December 31:</u>	<u>Town Hall</u>
2013	\$38,850
2014	43,452
2015	42,922
2016	47,393
2017	66,730
2018-2022	384,173
2023-2027	520,015
Total	<u><u>\$1,143,535</u></u>

7. Short Term Debt

The Village issued Sanitary Sewer Refunding Bond Anticipation Notes, Series 2012 in the amount of \$481,000 during 2012. These notes which mature on January 24, 2013, had an interest rate of 1.70 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 2012, OP&F participants contributed 5 percent of their wages and the Village contributed to OP&F an amount equal to 24.5 percent of full-time police members' wages. For 2012, OPERS members contributed 5 percent of their gross salaries and the Village contributed an amount equaling 19 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

Effective July 1, 1991, all employees not otherwise covered by OPERS or OP&F have an option to choose Social Security. As of December 31, 2012, the Mayor, Council members and volunteer fire fighters have elected Social Security. The Board's liability is 6.2 percent of wages paid.

9. Risk Management

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

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

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

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

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

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

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

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2012, the outstanding debt was \$20,030,648. The Village's net investment in OMEGA JV2 was \$285,108 at December 31, 2012. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2012 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

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

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

Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	<u>0.79%</u>	<u>1,066</u>	Custar	<u>0.00%</u>	<u>4</u>
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

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 \$57,352 at December 31, 2012. Complete financial statements for OMEGA JV4 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

The four participating subdivisions and their respective ownership shares at December 31, 2012 are:

Participant	Percent Project Ownership and Entitlement
Bryan	42%
Pioneer	30%
Montpelier	25%
Edgerton	3%
Total	<u>100%</u>

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

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

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

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

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

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
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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, 2012, 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 \$89,902 at December 31, 2012. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

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

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

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

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

**VILLAGE OF EDGERTON
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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, 2012, 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 \$118,767 at December 31, 2012. Complete financial statements for OMEGA JV6 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

The ten participating subdivisions and their respective ownership shares at December 31, 2012 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 368,000kW or an effective 23.26% undivided ownership interest (the "PSEC Ownership Interest") in the Prairie State Energy Campus ("PSEC"), a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The

**VILLAGE OF EDGERTON
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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.

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

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

AMP's share of the total Project costs, including AMP's share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately \$1,696.8 billion of debt of which the Village of Edgerton's share is approximately \$4,581,360. These estimated costs include (i) AMP's costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project.

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

B. American Municipal Power Generating Station Project

The Village is a 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. (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 EDGERTON
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**NOTES TO THE FINANCIAL STATEMENTS
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(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 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, 2012 the Village has a potential stranded cost obligation of \$169,770 for the AMPGS Project. The Village has made payments of \$115,022, 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 \$54,748.

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 (please see attached 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

**VILLAGE OF EDGERTON
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**NOTES TO THE FINANCIAL STATEMENTS
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(Continued)**

as of December 31, 2012.

Recording of Stranded Costs

As mentioned above, the Village has requested from AMP invoices totaling \$115,022, a portion of their potential AMPGS stranded cost liability. The Village has paid that amount to AMP in 2012 in the Contractual Services line item of its Combining Statements. 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 obligations with Ohio Municipal Electric Generation Agency (OMEGA) Joint Ventures 5 and 6. Please see footnotes 12 and 13 regarding OMEGA JV5 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, will be constructed and operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects. AMP received the last of the material permits needed to begin construction on the Cannelton hydroelectric facility and Smithland hydroelectric facility, respectively in 2009. Ground breaking ceremonies were held for Cannelton on August 25, 2009 and for Smithland on September 1, 2010. AMP received the last of the material permits for the Willow Island hydroelectric facility in the last quarter of 2010 and ground breaking ceremonies took place on July 21, 2011.

The Village has executed a take-or-pay power sales contract with AMP for 800 kW or 0.38% of capacity and associated energy from the hydro facilities.

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

As of June 1, 2012, AMP is projecting that the Combined Hydroelectric Projects are expected to enter into commercial operation as follows: Cannelton in the late second or early third quarter of 2014; Willow Island in the second quarter of 2015; and Smithland in the second quarter of 2015.

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP has issued in seven series \$2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the "*Combined Hydroelectric Bonds*"), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds) of which the Village of Edgerton's share is approximately \$7,772,615. 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

**VILLAGE OF EDGERTON
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**NOTES TO THE FINANCIAL STATEMENTS
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contract with 79 of its Members.

D. AMP Fremont Energy Center

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

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

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

The Village has executed a take-or-pay power sales contract with AMP for 530 kW or 0.11% of capacity and associated energy from the AFEC facility. The Village's share of the permanent financing is approximately \$600,693.

15. Segment Information for Enterprise Funds

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric Generation Agency (OMEGA) Joint Ventures 5 and 6 as described in Notes 12 and 13. The Village is liable for debt related to the financing of these OMEGA joint ventures. The activity is accounted for in the Village's Electric Fund, which is reported as part of the combined Enterprise Fund Type in the financial statements. Summary financial information for the Electric Fund is presented below:

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

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

	2012
Total Assets	\$2,151,077
Total Liabilities	984,472
 Condensed Operating Information:	
Operating Receipts	
Charges for Services	\$2,372,212
Other Operating Receipts	49,792
Total Operating Receipts	2,422,004
 Operating Expenses	 2,161,927
 Operating Income	 260,077
 Nonoperating Receipts (Disbursements)	
Intergovernmental Receipts	5,737
Capital Outlay	(56,937)
Principal Payments	(140,000)
Interest Payments	(14,196)
Other Nonoperating Receipts (Disbursements)	(5,737)
Change in Fund Cash Balance	48,944
Beginning Fund Cash Balance	2,102,133
Ending Fund Cash Balance	\$2,151,077
 Condensed Cash Flows Information:	
Net Cash Provided (Used) by:	
Operating Activities	\$261,008
Capital and Related Financing Activities	
Principal Payments on Capital and Related Debt	(140,000)
Interest Payments on Capital and Related Debt	(14,196)
Other Capital and Related Financing Activities	(56,937)
Net Cash Used by Capital and Related Financing Activities	(211,133)
Net Increase	49,875
Beginning Fund Cash Balance	2,101,161
Ending Fund Cash Balance	\$2,151,036

16. Contractual Commitments

On December 17, 2012 Council awarded the Miller Parkway Widening Resurfacing contract to API Construction Corp. in the amount of \$108,971. Project will be completed in 2013.

On August 6, 2012, Council awarded the following bids for the adaptive reuse of the former elementary school building for Village offices. The following contract amounts are outstanding as of December 31, 2012:

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
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Contract	Contractor	Contract Amount Outstanding
Electrical – Contract A	Wyse Electric	\$83,310
Electrical – Contract B	Wyse Electric	4,035
Mechanical/Plumbing – Contract A	L.R. Babcock	151,425
Mechanical/Plumbing – Contract B	L.R. Babcock	29,497
General Trades – Contract A	Midwest Contracting	303,441
General Trades – Contract B	Midwest Contracting	68,300

On November 24, 2009, Council entered into a real estate purchase agreement with the Edgerton Local School District (the District) in the amount of \$250,000. The property purchased is a portion of the former elementary school and houses the Village offices. Per the agreement, the Village made a down payment of \$10,000 and paid the District \$90,000 at closing on April 23, 2012. The Village will remit a payment of \$15,000 annually upon the anniversary date of the closing for a period of ten years. The contract amount outstanding as of December 31, 2012 is \$150,000.

17. Subsequent Events

The bond anticipation notes (BAN) stipulated in Note 7 above were renewed in January 2013 for \$462,000 with an interest rate of 1.7%. The BAN's will mature in January 2014.

On May 10, 2013, the Village was awarded an Assistance to Firefighters grant through the Federal Emergency Management Agency for a purchase of a new tanker truck in the amount of \$179,550.

18. Financial Recovery Plan

The Village has prepared a financial recovery plan which outlines the measures to be taken to eliminate the General Fund's deficit fund balance. Measures include reducing overtime, reviewing health insurance coverage, reducing or eliminating retirement pickup, selling assets (equipment, land), reducing services (brush pick-up, snow plowing, mosquito spraying), and increasing or establishing new rental fees (park, gym, senior center, office space).

The more significant steps taken by the Village to alleviate the fiscal condition include outsourcing the billing and collection for trash and recycling services to the provider and selling land.

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Dave Yost • Auditor of State

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

Village of Edgerton
Williams County
324 North Michigan Avenue
P.O. Box 609
Edgerton, Ohio 43517-0609

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 Edgerton, Williams County, Ohio (the Village) as of and for the year ended December 31, 2012, and the related notes to the financial statements, and have issued our report thereon dated August 13, 2013 wherein we noted the Village followed financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permits and suffered recurring losses from operations and had a net fund balance deficiency in the General fund.

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 certain deficiencies in internal control over financial reporting, that we consider material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider findings 2012-002, 2012-005, and 2012-006 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our

audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2012-001 through 2012-005.

Entity's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

August 13, 2013

VILLAGE OF EDGERTON
WILLIAMS COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2012

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

FINDING NUMBER 2012-001

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.

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.

Officials' Response

The Village is aware of the noncompliance issue noted above and has started to make the necessary changes in internal control to comply with Ohio Revised Code § 5705.41 (D)(1). Effective July 2013, the Fiscal Officer began preparing and signing all purchase orders prior to purchasing or committing to purchase. The Village is still working on appropriations for 2013 as well as working with employees in order to make sure purchasing procedures are properly followed. Additionally, the Fiscal Officer will look into using the exceptions as stated above when necessary and appropriate.

FINDING NUMBER 2012-002

Noncompliance Citation/Material Weakness

Ohio Rev. Code § 5705.10(H) provides that money paid into any fund shall be used only for the purposes for which such fund is established.

The following payments were determined to be inconsistent with the purpose of the fund to which it was posted in:

Expenditure Description	Amount Charged	Original Allocation Fund	Reallocated Fund	Reallocated Amount
Court Operating Costs	\$ 6,571	Water	General	\$ 6,571
Water Meters	2,972	Electric	Water	2,972
Street Truck Repairs	799	Electric	SCM&R	799
Income Tax Forms (W-2, 1099) & Envelopes	239	Electric	General	239
WEDCO Quarterly Dues	2,469	Electric	General	2,469
WEDCO Quarterly Dues	78	Water	General	78
WEDCO Quarterly Dues	78	Sewer	General	78
Townhall Payment	91,670	Electric	Infrastructure	91,670
	<u>\$ 104,876</u>			<u>\$ 104,876</u>

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

- General Fund (A1): Overstated \$9,434
- Street Construction, Maintenance, and Repair (B1): Overstated \$799
- Infrastructure (D1): Overstated \$91,670
- Water Fund (E1): Understated \$3,677
- Sewer Fund (E2): Understated \$78

- Electric Fund (E3): Understated \$98,148

We recommend that 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.

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

Officials' Response

The Village is aware of this weakness and is working on internal controls to make sure all expenditures are being charged to the proper funds. The Village will continue to look at allocations of payments and attempt to document the logic and rationale behind the breakdown of each expenditure. Additionally, the bill list provided to Council for approval is broken down by fund. However, items that are broken down in several funds are listed as "various". Again, the Fiscal Officer, Administrator, Mayor and Council will continue to look for ways to improve our systems and documentation.

FINDING NUMBER 2012-003

Noncompliance Citation

Ohio Revised Code § 5705.39 provides 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 as of December 31, 2012:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Differences</u>
General	\$614,668	\$685,000	(\$70,332)
Infrastructure	2	900,000	(899,998)
Income Tax Capital Improvements	302,524	313,000	(10,476)
Water	383,440	400,500	(17,060)
Sewer Maintenance Operating	731,774	735,000	(3,226)
Recycling	39,465	40,500	(1,035)
Garbage	107,835	113,000	(5,165)

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.

Officials' Response

The Village is aware of the noncompliance issue noted above. The Village is currently working on ways to better budget estimated resources for the year as well as making sure the appropriate modifications to estimated revenues and appropriations are approved and posted to the accounting system. As of 7/31/13, no budgetary information has been posted to the accounting system. However, the Village plans to have this information updated within a month or two for 2013 and have a better control on this in 2014.

FINDING NUMBER 2012-004

Noncompliance Citation

Ohio Revised Code § 5705.41(B) provides that no subdivision or taxing unit is to expend money unless it has been appropriated. The following funds had expenditures which exceeded appropriations as of December 31, 2012:

<u>Fund</u>	<u>Appropriations</u>	<u>Expenditures</u>	<u>Differences</u>
General	\$685,000	\$843,251	\$(158,251)
Street Construction, Maintenance, and Repair	90,000	106,850	(16,850)
Storm Sewer	61,500	72,145	(10,645)

The failure to limit expenditures to appropriated amounts resulted in deficit spending in all three funds noted above.

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

Officials' Response

The Village is aware of the noncompliance issue noted above. The Village is working on a minimum monthly financial statement for department supervisors and Council to review. Additionally, as soon as the appropriations are updated and approved, the Fiscal Officer will begin watching these on a weekly or daily basis to make sure purchase orders and expenditures are within approved appropriations. The Fiscal Officer will obtain Council approval for any necessary appropriation modifications and record such changes in the accounting system.

FINDING NUMBER 2012-005

Noncompliance Citation/Material Weakness

Ohio Revised Code § 5705.10(H) provides that money paid into a fund must be used only for the purposes for which such fund was established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund. The following funds had negative fund balances as of December 31, 2012:

General Fund	\$(184,527)
Street Construction, Maintenance, and Repair Fund	(6,439)
Storm Sewer	(6,813)
Recycling	(1,498)

We recommend management review this code section, carefully monitor fund balances, and begin efforts to restore the financial health of these funds.

Officials' Response

The Village is aware of the noncompliance issue noted above. The Village is in the process of changing internal controls over the expenditures process, as noted above, along with actively monitoring fund balances to help remedy this situation. Additionally, the Village is in the process of making necessary and appropriate changes and cuts to restore the negative fund balances. These changes include the privatizing of garbage and recycling billings and collections.

FINDING NUMBER 2012-006

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 2012, the Village's computer postings and bank reconciliations were not performed on a timely basis.

Some 2012 transactions were not posted to the accounting records until after the end of the fiscal year (December 31, 2012). There were no month end bank reconciliations performed during the year and the December 31, 2012 bank reconciliation was not completed until several months after year end by a hired outside consultant.

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.

Officials' Response

The Village is aware of the material weakness noted above. As the new Fiscal Officer gets things running more effectively and efficiently, he is committed to providing timely, accurate numbers. This is a work in process as the Village was behind in postings as of July 31, 2013. However, the Village is making large strides in order to correct these issues. Additionally, financial statements and reconciliations will be supplied to Council in a timely fashion once things are caught up and settled.

**VILLAGE OF EDGERTON
WILLIAMS COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Ohio Rev. Code § 5705.41(D), for failure to certify expenditures..	No	Not corrected. Reissued as Finding 2012-001 in this report.
2011-002	Ohio Rev. Code § 5705.10, for payments inconsistent with purpose of fund.	No	Not corrected. Reissued as Finding 2012-002 in this report.
2011-003	Ohio Rev. Code § 5705.39, for appropriations in excess of estimated resources.	No	Not corrected. Reissued as Finding 2012-003 in this report.
2011-004	Ohio Rev. Code § 5705.41(B), for budgetary expenditures in excess of appropriations.	No	Not corrected. Reissued as Finding 2012-004 in this report.
2011-005	Village of Edgerton Codified Ordinances § 13302 titled, Investment Policy, for investments held not authorized by policy.	Yes	
2011-006	Material weakness for failure to record "On-Behalf-Of Grants".	Yes	
2011-007	Material weakness due to audit adjustments posted to the financial statements.	Yes	
2011-008	Material weakness due to failure to timely post transactions and reconcile bank accounts.	No	Not corrected. Reissued as Finding 2012-005 in this report.
2011-009	Significant deficiency for failure to properly report Income Tax Capital Improvements fund balance in accordance with GASB 54.	Yes	



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
SEPTEMBER 5, 2013**