



**Auditor of State  
Betty Montgomery**



VILLAGE OF DESHLER  
HENRY COUNTY

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**Auditor of State  
Betty Montgomery**

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

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

July 27, 2005

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Council:

We have audited the accompanying financial statements of Village of Deshler, Henry County, (the Village) as of and for the years ended December 31, 2004 and 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004 or its changes in financial position or cash flows of its proprietary funds for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Village of Deshler, Henry County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Betty Montgomery**  
Auditor of State

July 27, 2005



**VILLAGE OF DESHLER  
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$66,606	\$65,492	\$7,184	\$139,282
State Shared Taxes and Permits	83,957			83,957
Intergovernmental Receipts	101,824	56,099	8,433	166,356
Charges for Services	2,500			2,500
Fines, Licenses, and Permits	4,423			4,423
Earnings on Investments	9,270	50		9,320
Miscellaneous	17,815	40		17,855
	<u>286,395</u>	<u>121,681</u>	<u>15,617</u>	<u>423,693</u>
<b>Total Cash Receipts</b>				
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	198,943			198,943
Public Health Services	6,000			6,000
Leisure Time Activities	6,486	9,964		16,450
Basic Utility Services	3,000			3,000
Transportation	992	116,746		117,738
General Government	72,381			72,381
Debt Service:				
Principal Payments			15,000	15,000
Interest Payments			545	545
Capital Outlay	18,000	1,869	8,376	28,245
	<u>305,802</u>	<u>128,579</u>	<u>23,921</u>	<u>458,302</u>
<b>Total Cash Disbursements</b>				
<b>Total Cash Disbursements Over Cash Receipts</b>	<u>(19,407)</u>	<u>(6,898)</u>	<u>(8,304)</u>	<u>(34,609)</u>
<b>Other Financing Receipts and (Disbursements):</b>				
Transfers-In	97,000	7,200	7,992	112,192
Transfers-Out	(77,349)			(77,349)
Other Financing Uses	(1,000)			(1,000)
	<u>18,651</u>	<u>7,200</u>	<u>7,992</u>	<u>33,843</u>
<b>Total Other Financing Receipts/(Disbursements)</b>				
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<u>(756)</u>	<u>302</u>	<u>(312)</u>	<u>(766)</u>
<b>Fund Cash Balances, January 1</b>	<u>2,663</u>	<u>16,057</u>	<u>1,774</u>	<u>20,494</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$1,907</b></u>	<u><b>\$16,359</b></u>	<u><b>\$1,462</b></u>	<u><b>\$19,728</b></u>
<b>Reserves for Encumbrances, December 31</b>	<u><b>\$878</b></u>	<u><b>\$32</b></u>	<u><b>\$910</b></u>	<u><b>\$910</b></u>

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

**VILLAGE OF DESHLER  
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
FUND CASH BALANCES - ALL PROPRIETARY SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Proprietary Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$1,704,505		\$1,704,505
Total Operating Cash Receipts	<u>1,704,505</u>		<u>1,704,505</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	415,678	\$17,922	433,600
Fringe Benefits	117,629	6,814	124,443
Contractual Services	730,289		730,289
Supplies and Materials	285,726	1,000	286,726
Miscellaneous	10,649	744	11,393
Capital Outlay	56,850		56,850
Total Operating Cash Disbursements	<u>1,616,821</u>	<u>26,480</u>	<u>1,643,301</u>
Operating Income/(Loss)	<u>87,684</u>	<u>(26,480)</u>	<u>61,204</u>
<b>Non-Operating Cash Receipts:</b>			
Intergovernmental Receipts		171,771	171,771
Other Non-Operating Receipts	42,057		42,057
Total Non-Operating Cash Receipts	<u>42,057</u>	<u>171,771</u>	<u>213,828</u>
<b>Non-Operating Cash Disbursements:</b>			
Debt Service	288,240		288,240
Total Non-Operating Cash Disbursements	<u>288,240</u>		<u>288,240</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(158,499)	145,291	(13,208)
Transfers-In	91,249		91,249
Transfers-Out		(126,092)	(126,092)
Net Receipts Over/(Under) Disbursements	(67,250)	19,199	(48,051)
Fund Cash Balances, January 1	<u>1,179,081</u>	<u>1,278</u>	<u>1,180,359</u>
<b>Fund Cash Balances, December 31</b>	<u><b>\$1,111,831</b></u>	<u><b>\$20,477</b></u>	<u><b>\$1,132,308</b></u>
Reserve for Encumbrances, December 31	<u>\$106,449</u>	<u>\$118</u>	<u>\$106,567</u>

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

**VILLAGE OF DESHLER  
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>				
Property Tax and Other Local Taxes	\$62,432	\$34,546	\$6,623	\$103,601
State Shared Taxes and Permits	84,887			84,887
Intergovernmental Receipts	86,333	46,733	203,494	336,560
Charges for Services	2,000			2,000
Fines, Licenses, and Permits	2,960			2,960
Earnings on Investments	13,529	402		13,931
Miscellaneous	34,061	1,674	276	36,011
	<u>286,202</u>	<u>83,355</u>	<u>210,393</u>	<u>579,950</u>
<b>Cash Disbursements:</b>				
Current:				
Security of Persons and Property	213,852			213,852
Public Health Services	5,000			5,000
Leisure Time Activities	21,689	14,592		36,281
Basic Utility Services	1,000			1,000
Transportation	1,668	108,799		110,467
General Government	89,865			89,865
Capital Outlay	15,206		260,369	275,575
	<u>348,280</u>	<u>123,391</u>	<u>260,369</u>	<u>732,040</u>
Total Cash Disbursements Over Cash Receipts	<u>(62,078)</u>	<u>(40,036)</u>	<u>(49,976)</u>	<u>(152,090)</u>
<b>Other Financing Receipts and (Disbursements):</b>				
Loan Proceeds			30,000	30,000
Transfers-In	140,528		13,000	153,528
Transfers-Out	(77,656)		(6,328)	(83,984)
	<u>62,872</u>		<u>36,672</u>	<u>99,544</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	794	(40,036)	(13,304)	(52,546)
Fund Cash Balances, January 1	<u>1,869</u>	<u>56,093</u>	<u>15,078</u>	<u>73,040</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$2,663</u></b>	<b><u>\$16,057</u></b>	<b><u>\$1,774</u></b>	<b><u>\$20,494</u></b>
Reserves for Encumbrances, December 31		<u>\$23,412</u>		<u>\$23,412</u>

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

**VILLAGE OF DESHLER  
HENRY COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN  
FUND CASH BALANCES - ALL PROPRIETARY SIMILAR FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Proprietary Fund Types</u>		<b>Totals (Memorandum Only)</b>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$1,658,883		\$1,658,883
Total Operating Cash Receipts	<u>1,658,883</u>		<u>1,658,883</u>
<b>Operating Cash Disbursements:</b>			
Personal Services	349,093	\$17,020	366,113
Fringe Benefits	87,919	6,918	94,837
Contractual Services	740,011		740,011
Supplies and Materials	213,867	996	214,863
Miscellaneous	9,638	12,673	22,311
Capital Outlay	24,852		24,852
Total Operating Cash Disbursements	<u>1,425,380</u>	<u>37,607</u>	<u>1,462,987</u>
Operating Income/(Loss)	<u>233,503</u>	<u>(37,607)</u>	<u>195,896</u>
<b>Non-Operating Cash Receipts:</b>			
Intergovernmental Receipts		176,107	176,107
Other Non-Operating Receipts	47,699	9	47,708
Total Non-Operating Cash Receipts	<u>47,699</u>	<u>176,116</u>	<u>223,815</u>
<b>Non-Operating Cash Disbursements:</b>			
Debt Service	299,632		299,632
Total Non-Operating Cash Disbursements	<u>299,632</u>		<u>299,632</u>
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers	(18,430)	138,509	120,079
Transfers-In	85,656		85,656
Transfers-Out		(155,200)	(155,200)
Net Receipts Over/(Under) Disbursements	67,226	(16,691)	50,535
Fund Cash Balances, January 1	<u>1,111,855</u>	<u>17,969</u>	<u>1,129,824</u>
<b>Fund Cash Balances, December 31</b>	<b><u>\$1,179,081</u></b>	<b><u>\$1,278</u></b>	<b><u>\$1,180,359</u></b>
Reserve for Encumbrances, December 31	<u>\$138,962</u>		<u>\$138,962</u>

*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, 2004 AND 2003**

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

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

**B. Basis of Accounting**

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. This basis 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 adequately disclose material matters the Auditor of State prescribes.

**C. Cash**

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports 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 that is 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 Fund**

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

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

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

Permissive Motor Vehicle License Tax Fund - This fund receives permissive motor vehicle tax revenue for constructing, maintaining, and repairing Village streets, bridges, and viaducts.

**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:

Bridge Grant Construction Fund - This fund receives grant revenue and proceeds of general obligation loan. The proceeds are being used for a bridge improvement project.

Swimming Pool Construction Fund - This fund receives property tax revenue for capital improvements at the Village swimming pool.

**4. Enterprise Funds**

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

Electric Operating Fund - This fund receives charges for services from residents to the cost of providing this utility.

**5. Fiduciary Funds (Agency Funds)**

Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary fund:

Income Tax Fund - This fund receives .5 percent tax from residents and businesses of the Village to be used for various capital and general operating needs of the Village. This is an Agency Fund and the Village distributes collections by transfer upon Council approval.

**E. Budgetary Process**

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

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, object level of control, and appropriations may not exceed estimated resources. 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 also approve estimated resources.

**3. Encumbrances**

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

A summary of 2004 and 2003 budgetary activity appears in Note 3.

**F. 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.

**G. 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 CASH**

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

	<u>2004</u>	<u>2003</u>
Demand deposits	\$741,104	\$789,921
Certificates of deposit	410,932	410,932
Total deposits	<u>\$1,152,036</u>	<u>\$1,200,853</u>

Deposits are either (1) insured by the Federal Depository Insurance Corporation; (2) collateralized by securities specifically pledged by the financial institution to the Village

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31 follows:

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$398,138	\$383,395	(\$14,743)
Special Revenue	147,857	128,882	(18,975)
Capital Projects	44,474	23,609	(20,865)
Enterprise	2,945,082	1,837,811	(1,107,271)
Agency	161,279	171,771	10,492
Total	<u>\$3,696,830</u>	<u>\$2,545,468</u>	<u>(\$1,151,362)</u>

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$427,995	\$385,029	\$42,966
Special Revenue	147,175	128,611	18,564
Capital Projects	44,000	23,921	20,079
Enterprise	2,467,825	2,011,510	456,315
Fiduciary	160,000	152,690	7,310
Total	<u>\$3,246,995</u>	<u>\$2,701,761</u>	<u>\$545,234</u>

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$550,869	\$426,730	(\$124,139)
Special Revenue	155,134	83,355	(71,779)
Capital Projects	286,492	253,393	(33,099)
Enterprise	2,694,331	1,792,238	(902,093)
Fiduciary	197,969	176,107	(21,862)
Total	<u>\$3,884,795</u>	<u>\$2,731,823</u>	<u>(\$1,152,972)</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$535,595	\$425,936	\$109,659
Special Revenue	153,575	146,803	6,772
Capital Projects	282,000	266,697	15,303
Enterprise	2,072,125	1,863,974	208,151
Fiduciary	197,900	192,807	5,093
Total	<u>\$3,241,195</u>	<u>\$2,896,217</u>	<u>\$344,978</u>



**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

**4. PROPERTY TAX**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts 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 State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment 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.

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

**5. LOCAL INCOME TAX**

The Village levies a municipal income tax of .5 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, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission Loan	\$119,548	4.00%
General Obligation Loan	15,035	1.70%
AMP-Ohio Note	<u>267,000</u>	2.15%
Total	<u><u>\$401,583</u></u>	

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

The General Obligation Loan relates a bridge improvement project. The Village's taxing authority collateralized the general obligation loan.

The Village entered into a loan agreement with American Municipal Power - Ohio, Inc. (AMP-Ohio) for an amount of \$1,250,000 on June 18, 1999 for the purpose of providing financing for the construction of a 69 kV electric transmission line for use in the Village's municipal electric system.

The Electric Operating Fund is to pay the loan made by AMP-Ohio together with interest thereon equal to the rate(s) of interest on the Electric System Improvement Bond Anticipation Notes (the

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

Notes) to be issued by AMP-Ohio in one or more series, or on notes issued to refund the Notes, or on the Electric System Improvement Bonds to be issued by AMP-Ohio in anticipation of which Bonds the Notes are issued.

As of December 31, 2004, the amount due AMP Ohio is \$267,000. The loan is secured by revenues from the Village's electric system and will mature on July 7, 2005, at which time the Village has agreed to pay AMP Ohio all interest due 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 for a term of twenty years at the interest rate which is currently 2.10 percent per annum.

If AMP-Ohio is unable to refinance the loan it shall give the Village thirty (30) days' notice of such inability and the Village shall pay to AMP-Ohio all amounts necessary at maturity. The Village could obtain the necessary financing from other sources if the need arises. This is the Villages third renewal.

Amortization of the above debt, including interest, follows:

<u>Year ending December 31:</u>	<u>OPWC Loan</u>	<u>AMP-Ohio Notes</u>	<u>General Obligation Loan</u>
2005	\$14,622	\$272,725	\$15,291
2006	14,622		
2007	14,622		
2008	14,622		
2009	14,622		
2010-2014	73,112		
Total	<u>\$146,222</u>	<u>\$272,725</u>	<u>\$15,291</u>

**7. RETIREMENT SYSTEMS**

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time 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 the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village had a \$10,541 still unpaid to OPERS at December 31, 2004.

**8. RISK MANAGEMENT**

The Village belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments (Members).

Pursuant to § 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability,

**VILLAGE OF DESHLER  
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003  
(Continued)**

crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures with A-VII or better rated carriers, except for a 5 percent portion the Plan retains. With policies effective September 1, 2003 and after, The Plan pays the lesser of 5 percent or \$25,000 for casualty losses up to the coverage limit and the lesser of 5 percent or \$50,000 for property losses up to the coverage limit. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities, and retained earnings at December 31:

	<u>2004</u>	<u>2003</u>
Assets	\$6,685,522	\$5,402,167
Liabilities	<u>2,227,808</u>	<u>1,871,123</u>
Members' Equity	<u><u>\$4,457,714</u></u>	<u><u>\$3,531,044</u></u>

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

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**Auditor of State  
Betty Montgomery**

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

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

To the Village Council:

We have audited the financial statements of Village of Deshler, Henry County, (the Village) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated July 27, 2005, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-002.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal

control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the Village's management dated July 27, 2005, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2004-001.

We intend this report solely for the information and use of management and Village Council. It is not intended for anyone other than these specified parties.



**Betty Montgomery**  
Auditor of State

July 27, 2005

VILLAGE OF DESHLER  
HENRY COUNTY

SCHEDULE OF FINDINGS  
DECEMBER 31, 2004 AND 2003

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

FINDING NUMBER 2004-001

**Noncompliance Citation**

Ohio Revised Code § 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in §§ 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Village can authorize the drawing of a warrant for the payment of the amount due. The Village 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 (\$1,000 prior to April 7, 2003) 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.

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. (Prior to September 26, 2003, blanket certificates were limited to \$5,000 and three months.) 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 may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Forty three percent of the transactions tested were not certified by the fiscal officer at the time the commitment was incurred and there was no evidence that the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2004-001  
(Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village's funds exceeding budgetary spending limitations, we recommend that the Clerk-Treasurer certify that 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 § 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language § 5705.41(D) 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 § 5705.41(D) are satisfied. The fiscal officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**FINDING NUMBER 2004-002**

**Reportable Condition**

Village Income Tax Ordinance 1543 requires mandatory filings of income tax returns. The Village maintains manual records for recording of income tax collections. The following deficiencies were noted in testing of income tax revenue:

- Manual Individual and Business ledgers, indicating who has filed a return, have not been updated since 2002.
- There is a file of delinquent tax payers. However, there is no listing that is prepared indicating the amount of delinquencies due the village.
- The Village has not enforced the mandatory filing requirements by its residents and verification is not performed to determine who is filing.
- Penalties and interest are not assessed for delinquent tax filings.
- There are no subsidiary records for income tax collections that can be reconciled to the revenue ledger.
- No indication was made on the tax returns to show if the return was recalculated as to its accuracy. Our testing of 60 tax returns resulted in 5 returns had calculation errors and one return did not have the necessary tax forms on file to support the tax due.

Failure to enforce the income tax ordinance and maintain adequate income tax accounting records can result in loss of revenue and misappropriation of funds going undetected. To increase accountability and controls over the collections of income tax we recommend:

- Individual and Business ledgers need to be updated annually indicating who is required to file a return with an indication that a return has been filed.
- A listing of delinquent income tax filings should be maintained indicating the amount of delinquencies due the Village. The amount of delinquencies should be reported to Council on a periodic basis.
- The Village needs to take a more aggressive approach in enforcing the mandatory requirements of the income tax ordinance.



**FINDING NUMBER 2004-002**  
**(Continued)**

- Penalties and interest should be assessed to delinquent filers as required by the Income Tax Ordinance.
- Subsidiary records should be maintained indicating the income tax collections and reconciled to the Village's revenue ledger.
- Each return should be recalculated with an indication of such recalculation and any discrepancies in the return should be followed up.

Further we recommend that the Village either obtain income tax accounting software or contract with an outside tax collection agency.

**VILLAGE OF DESHLER  
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2001 AND 2002**

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>
2002-30135-001	ORC § 5705.41 (D) improper fiscal officer certification of certain expenditures	No	Not corrected. Reissued as Finding #2004-001.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**VILLAGE OF DESHLER**

**HENRY COUNTY**

**CLERK'S CERTIFICATION**

**This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.**

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
AUGUST 18, 2005**