VILLAGE OF EDGERTON
WILLIAMS COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2003-2004

Auditor of State
Betty Montgomery

VILLAGE OF EDGERTON
WILLIAMS COUNTY

TABLE OF CONTENTS

This page intentionally left blank.

Auditor of State
Betty Montgomery

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

To the Village Council,

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to 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.

Betty Montgomery

Betty Montgomery
Auditor of State

December 12, 2005

This page intentionally left blank.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Edgerton, Williams County, (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. We believe that 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, 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 of the Village of Edgerton, Williams County, as of December 31, 2004 and 2003, and its combined cash receipts, disbursements, and reserves for encumbrances 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 December 12, 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

Betty Montgomery
Auditor of State

December 12, 2005

VILLAGE OF EDGERTON
WILLIAMS 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

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	$629,670	$57,646	$226,731	$914,047
Intergovernmental Receipts	94,827	101,246		196,073
Charges for Services	57,818			57,818
Fines, Licenses, and Permits	8,901	200		9,101
Earnings on Investments	12,601	4,612		17,213
Miscellaneous	9,429			9,429
Total Cash Receipts	813,246	163,704	226,731	1,203,681
Cash Disbursements:				
Current:				
Security of Persons and Property	313,377			313,377
Public Health Services	9,929			9,929
Leisure Time Activities	45,315			45,315
Transportation	86,882	76,824		163,706
General Government	198,804	1,870	16,795	217,469
Capital Outlay	321	221,394	218,228	439,943
Total Cash Disbursements	654,628	300,088	235,023	1,189,739
Total Cash Receipts Over/(Under) Cash Disbursements	158,618	(136,384)	(8,292)	13,942
Other Financing Receipts/Disbursements:				
Transfers-Out	(264,910)			(264,910)
Other Financing Sources	98,202		300	98,502
Other Financing Uses		(2,000)		(2,000)
Total Other Financing Receipts/(Disbursements)	(166,708)	(2,000)	300	(168,408)
Excess of Cash Receipts and Other Financing Receipts Under Cash Disbursements and Other Financing Disbursements	(8,090)	(138,384)	(7,992)	(154,466)
Fund Cash Balances, January 1	14,508	407,392	115,615	537,515
Fund Cash Balances, December 31	**$6,418**	**$269,008**	**$107,623**	**$383,049**
Reserves for Encumbrances, December 31				

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

VILLAGE OF EDGERTON
WILLIAMS COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2004

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	$2,446,571
Miscellaneous	58,931
Total Operating Cash Receipts	2,505,502
Operating Cash Disbursements:	
Personal Services	411,959
Contractual Services	1,559,877
Supplies and Materials	230,824
Capital Outlay	151,412
Total Operating Cash Disbursements	2,354,072
Operating Income	151,430
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	11,090
Non-Operating Cash Disbursements:	
Debt Service	279,388
Other Non-Operating Cash Disbursements	132,453
Total Non-Operating Cash Disbursements	411,841
Excess of Cash Receipts Under Cash Disbursements Before Interfund Transfers	(249,321)
Transfers-In	264,910
Net Cash Receipts Over Cash Disbursements	15,589
Fund Cash Balances, January 1	1,090,075
Fund Cash Balances, December 31	**$1,105,664**
Reserve for Encumbrances, December 31	

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

VILLAGE OF EDGERTON
WILLIAMS 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

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property Tax and Other Local Taxes	$591,399	$61,401	$210,125	$862,925
Intergovernmental Receipts	93,157	88,291	36,274	217,722
Charges for Services	16,870			16,870
Fines, Licenses, and Permits	14,605	197		14,802
Earnings on Investments	17,239	8,247		25,486
Miscellaneous	6,540	5,602		12,142
Total Cash Receipts	739,810	163,738	246,399	1,149,947
Cash Disbursements:				
Current:				
Security of Persons and Property	348,371	9,440		357,811
Public Health Services	10,076			10,076
Leisure Time Activities	60,711			60,711
Community Environment		20,000		20,000
Basic Utility Services				0
Transportation	113,991	68,269		182,260
General Government	202,875		13,838	216,713
Capital Outlay		18,329	246,494	264,823
Total Cash Disbursements	736,024	116,038	260,332	1,112,394
Total Cash Receipts Over/(Under) Cash Disbursemen	3,786	47,700	(13,933)	37,553
Other Financing Receipts/Disbursements:				
Transfers-Out	(109,368)			(109,368)
Other Financing Sources	10,893			10,893
Other Financing Uses	(2,242)	(2,032)		(4,274)
Total Other Financing Receipts/(Disbursements)	(100,717)	(2,032)	0	(102,749)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(96,931)	45,668	(13,933)	(65,196)
Fund Cash Balances, January 1	111,439	361,724	129,548	602,711
Fund Cash Balances, December 31	**$14,508**	**$407,392**	**$115,615**	**$537,515**
Reserves for Encumbrances, December 31	$1,168	$0	$5,778	$6,946

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

VILLAGE OF EDGERTON
WILLIAMS COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE FOR THE YEAR ENDED DECEMBER 31, 2003

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	$2,357,534
Miscellaneous	39,132
Total Operating Cash Receipts	2,396,666
Operating Cash Disbursements:	
Personal Services	447,228
Contractual Services	1,417,942
Supplies and Materials	420,342
Capital Outlay	311,925
Total Operating Cash Disbursements	2,597,437
Operating Loss	(200,771)
Non-Operating Cash Receipts:	
Miscellaneous Revenue	4,264
Other Non-Operating Receipts	10,420
Total Non-Operating Cash Receipts	14,684
Non-Operating Cash Disbursements:	
Debt Service	287,643
Other Non-Operating Cash Disbursements	6,992
Total Non-Operating Cash Disbursements	294,635
Excess of Cash Receipts Under Cash Disbursements Before Interfund Transfers	(480,722)
Transfers-In	109,368
Net Cash Receipts Under Cash Disbursements	(371,354)
Fund Cash Balances, January 1	1,461,429
Fund Cash Balances, December 31	**$1,090,075**
Reserve for Encumbrances, December 31	$22,170

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

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, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides general governmental services, including electric, water, and sewer utilities, park operations (leisure time activities), maintenance of streets, and police and fire protection, and general village maintenance.

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 and Investments

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 reports gains or losses at the time of sale as receipts and disbursements, respectively.

Certificates of deposit are valued at cost.

D. Fund Accounting

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

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

These funds are used to 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:

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

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

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project funds:

Capital Improvement Fund - This fund receives proceeds from an income tax levy which are used to acquire property and equipment and to construct capital improvements.

Infrastructure Fund – The Village receives grants from the State of Ohio to repair and maintain Village storm sewers.

4. Enterprise Funds

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control, and appropriations may not exceed estimated resources. The 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 to be reappropriated.

A summary of the 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 used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	2004	2003
Demand deposits	$158,613	$297,490
Certificates of deposit	1,330,000	1,330,000
Total deposits	1,488,613	1,627,490
Cash on hand	100	100
Total deposits and cash on hand	$1,488,713	$1,627,590

Deposits are either (1) insured by the Federal Depository Insurance Corporation, (2) collateralized by securities specifically pledged by the financial institution to the Village, or (3) collateralized by the financial institution's public entity deposit pool. At December 31, 2003, $225,000 was not properly collateralized by the banking institution.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and 2003 follows:

2004 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$850,000	$911,448	$61,448
Special Revenue	147,650	163,704	16,054
Capital Projects	200,000	227,031	27,031
Enterprise	2,517,500	2,781,502	264,002
Total	$3,715,150	$4,083,685	$368,535

2004 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$890,668	$919,538	($28,870)
Special Revenue	368,000	302,088	65,912
Capital Projects	275,778	235,023	40,755
Enterprise	2,620,138	2,765,913	(145,775)
Total	$4,154,584	$4,222,562	($67,978)

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$815,638	$750,703	($64,935)
Special Revenue	157,450	163,739	6,289
Capital Projects	190,500	246,399	55,899
Enterprise	2,614,600	2,520,718	(93,882)
Total	$3,778,188	$3,681,559	($96,629)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$815,541	$848,802	($33,261)
Special Revenue	245,000	118,070	126,930
Capital Projects	302,937	266,110	36,827
Enterprise	2,613,646	2,914,242	(300,596)
Total	$3,977,124	$4,147,224	($170,100)

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates 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 make semiannual payments, 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.

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 1 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:

	Principal	Interest Rate
Mortgage Revenue Bonds	$749,000	5.00%
Electric System Improvement Loan	2,060,000	1.35%
Total	$2,809,000	

The Mortgage Revenue Bonds relate to a sanitary sewer project. The bonds were issued by the Village on October 1, 1980, for an aggregate amount of $1,330,000. The bonds will be paid in annual installments according to the principal and interest amounts listed in the bond amortization schedule until October 1, 2017. The scheduled payment amounts are listed below.

The Village entered into a loan agreement with American Municipal Power – Ohio, Inc. (AMP-Ohio) 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-Ohio 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-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.

On the maturity date of the Notes or refunding notes, the Village will pay to AMP-Ohio 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-Ohio will use its best efforts to refinance any remaining principal of the Notes or refunding notes; provided, however, that if AMP-Ohio 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-Ohio all amounts necessary to retire the Notes or refunding notes at maturity.

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

	Mortgage Revenue Bonds
Year ending December 31:	
2005	$79,450
2006	79,350
2007	80,150
2008	79,800
2009	79,350
2010-2014	399,550
2015-2017	239,050
Total	$1,036,700

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 and 24 percent of fire 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 has paid all contributions required through December 31, 2004.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles;
- Inland marine;
- Crime and fidelity
- Public officials' liability;
- Other - Linebacker

The Village also provides health insurance and dental and vision coverage to full-time employees through a private carrier.

9. JV 5 JOINT VENTURE

The Village of Edgerton is a Financing Participant with an ownership percentage of .84 %, 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-Ohio.

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2004 Edgerton 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-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio 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 $72,619 at December 31, 2004. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

10. JV 2 JOINT VENTURE

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-Ohio 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-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio 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. The Village's net investment in OMEGA JV2 was $511,060 at December 31, 2004. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2004 are:

Municipality	Percent Ownership	KW Entitlement	Municipality	Percent Ownership	KW Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
			Grand Total	100.00%	134,081

11. COMPLIANCE

- The Village did not certify all commitments required by Ohio Law.
- The Village's deposits were insufficiently collateralized by its bank by $225,000 at 12/31/2003.
- In 2003 and 2004, there were several funds where appropriations posted to the system exceeded the appropriations approved by Village Council.
- Budgetary expenditures exceeded appropriations in several fund in 2003 and 2004.
- There were revenues and expenditures were posted to the wrong funds and there were negative fund balances noted throughout 2003 and 2004.

This page intentionally left blank.

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 Edgerton
Williams County
103 South Michigan Avenue
P.O. Box 609
Edgerton, Ohio 43517-0609

To the Village Council:

We have audited the financial statements of the Village of Edgerton, Williams County, (the Village) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated December 12, 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 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 certain matters involving the internal control over financial reporting and its operation that we consider reportable conditions. 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. Reportable conditions are described in the accompanying schedule of findings as items 2004-006 and 2004-007.

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 of 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. We consider reportable condition 2004-007 listed above to be a material weakness. In a separate letter to the Village's management dated December 12, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2004-001 through 2004-005. In a separate letter to the Village's management dated December 12, 2005, we reported other matters related to noncompliance we deemed immaterial.

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

Betty Montgomery

Betty Montgomery
Auditor of State

December 12, 2005

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 authority 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 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 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.

A. **"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 he 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 taxing authority can authorize the drawing of a warrant for the payment of the amount due. The taxing authority 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 taxing authority.

B. **Blanket Certificate** – Fiscal officers may prepare "blanket certificates not exceeding $5,000 (an amount established by resolution or ordinance adopted by the legislative authority after September 26, 2003) against any specific line item account over a period not exceeding three month or running beyond 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 particular line item appropriation.

C. **Super Blanket Certificate** – The taxing authority 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 (or quarterly spending plan for counties). More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Village did not properly certify 55 percent of expenditures tested prior to the purchase commitment and there was no evidence the Village followed the aforementioned exceptions for these transactions. In addition, blanket and super blanket purchase orders were not always properly completed and/or certified by the Clerk-Treasurer. Failure to properly certify the availability of funds can result in overspending funds and negative cash 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 taxing authority's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the taxing authority. When prior certification is not possible, "then and now" certification should be used.

We recommend the Village certify purchases to which section 5704.41(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 the 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.

We also reported this matter in the management letter in our audit of the 2002 and 2001 financial statements.

FINDING NUMBER 2004-002

Noncompliance Citation

Ohio Revised Code § 135.18 states in part that the treasurer of a political subdivision, before making a deposit in a public depository, must require the depository to provide, as security, an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

At December 31, 2003, the Village had deposits with the Hicksville Bank totaling $1,330,000. $100,000 of this total was secured through FDIC coverage. Of the remaining $1,230,000, the Hicksville Bank only had $1,005,000 in pledged securities. This resulted in the Village being under collateralized by $225,000. The Bank provided additional securities in November 2004.

We recommend the Clerk-Treasurer request and monitor pledged collateral statements on a periodic basis. Failure to do so could result in Village's monies being unsecured and subject to loss.

FINDING NUMBER 2004-003

Noncompliance Citation

Ohio Revised Code § 5705.40 provides that appropriation measures may be amended or supplemented as long as the entity complies with the same provisions of the law as are used in making the original appropriation. Changes were made to the original appropriations throughout fiscal year 2003 and 2004 and recorded in the Village's accounting records for the funds listed below. These changes were not approved by Village Council:

FINDING NUMBER 2004-003
(Continued)

Fiscal Year	Fund	Approved Appropriations	Posted Appropriations	Difference
2003	Infrastructure Fund	$20,000	$31,750	$11,750
2003	Electric Fund	1,656,000	1,864,000	208,000
2004	General Fund	889,500	1,045,500	156,000
2004	Street Construction and Maintenance Fund	70,000	71,000	1,000
2004	State Highway Fund	5,000	10,000	5,000
2004	Permissive Motor Vehicle License Tax Fund	15,000	25,000	10,000
2004	Income Tax Capital Improvement Fund	250,000	270,000	20,000
2004	Water Fund	199,450	233,950	34,500
2004	Electric Fund	1,960,000	2,152,100	192,100
2004	Light and Water Deposit Fund	10,000	15,000	5,000
2004	Sewer Deposit Fund	4,000	7,000	3,000
2004	Recycling Fund	31,000	34,000	3,000

This could result in changes to appropriations which are not consistent with Village Council's intentions. Any changes made to appropriations at the legal level of control should be approved by Council in the same manner as the original appropriation measure.

FINDING NUMBER 2004-004

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. The following variances were noted:

Fiscal Year	Fund	Appropriations	Budgetary Expenditures	Difference
2003	General Fund	$815,541	$848,802	($33,261)
2003	Street Construction and Maintenance Fund	67,000	67,245	(245)
2003	Motor Vehicle License Tax Fund	10,000	15,929	(5,929)
2003	Infrastructure Fund	20,000	36,272	(16,272)
2003	Water Fund	202,435	216,137	(13,702)
2003	Sewer Fund	161,775	165,899	(4,124)
2003	Electric Fund	1,657,469	2,058,491	(401,022)
2003	Storm Sewer Fund	40,000	41,155	(1,155)
2003	Garbage Fund	85,000	86,788	(1,788)
2004	General Fund	890,668	919,538	(28,870)
2004	Street Construction and Maintenance Fund	70,000	70,776	(776)
2004	State Highway Fund	5,000	9,547	(4,547)
2004	Water Fund	199,450	231,644	(32,194)
2004	Electric Fund	1,976,945	2,144,116	(167,171)
2004	Recycling Fund	31,000	89,983	(58,983)

FINDING NUMBER 2004-004
(Continued)

The failure to limit expenditures to appropriated amounts may result in the Village expending funds in excess of available resources. The Village should periodically compare expenditures and encumbrances to appropriations to determine if a modification to appropriations is necessary.

FINDING NUMBER 2004-005

Noncompliance Citation

Ohio Revised Code § **5705.10** requires all revenue derived from a specific source to be credited to a special fund for the purpose for which the monies were received. Furthermore, the aforementioned section requires that money paid into any fund shall be used for the purposes for which such fund is established. A negative fund balance indicates money from one fund was used to cover the expenses of another fund.

- In 2003, $60,000 of Sewer fund expenditures were charged to the Income Tax Capital Improvement fund and $13,730 of Water fund expenditures for repair and painting of the Village's water tower were charged to the Sewer fund
- In 2004, Fire levy rollback and homestead monies of $2,705 were improperly credited to the General fund.
- There were several funds that had negative fund balances ranging from one to nine months. Expenditures were made from the funds without advancing money from another fund to cover expenditures. Below is a list of the maximum negative fund balances noted in 2003 and 2004.

Fund	2003	2004
Street Construction and Maintenance Fund	$3,784	$1,210
Infrastructure Fund	6,299	
Water Fund	26,807	70,806
Sanitary Sewer Fund	42,933	33,943

In order to ensure that all monies have been properly posted to the correct funds and that fund balances remain positive, we recommend that the Clerk-Treasurer periodically review the revenue and expenditure ledgers to ensure proper posting of receipts and disbursements. In addition, monthly fund ledgers should be reviewed to ensure that all funds have positive fund balances. If funds are not available at the time an obligation is incurred, the Village Council should advance monies from another fund to cover the expenses of the indebted matter.

FINDING NUMBER 2004-006

Reportable Condition – Monitoring Controls

Sound accounting practices require a segregation of duties where possible and increased monitoring control be used when segregation of duties is not feasible due to a small number of employees. This ensures that financial data is accurately presented and helps to ensure that resources are being efficiently and effectively utilized. A key aspect of this monitoring process is regular and thorough monitoring by management and a continuing adherence to the budget limits established by Village Council.

FINDING NUMBER 2004-006
(Continued)

There was a lack of segregation of duties in the posting of income tax receipts, utility receipts, and payroll transactions. Council's review of Village finances was limited to manually prepared list of bills and an income tax revenue report. Reviews such as these do not allow Council to adequately monitor the financial condition of the Village. Lack of controls has resulted in errors occurring without timely detection by management.

We recommend that the following controls be implemented:

- Council and the Administrator should review monthly financial reports that include month-to-date and year-to-date receipt and disbursement totals; budget to actual receipts and disbursements at the legal level of controls; and the balances in each fund. Reports such as these should be generated utilizing the Village's computerized accounting system. Council and the Administrator should use these reports as a tool to monitor the Village's financial situation and adapt budgets in anticipation of changing circumstances. Reports should be approved in the minutes and copies should be retained in the Council agendas.

- Council and/or the Administrator should examine monthly general and payroll bank reconciliations as well as a detailed list of outstanding checks. Council and/or the Administrator should occasionally compare information on the bank reconciliations to supporting documentation and review the outstanding check list for any unusual items.

- Council and/or the Administrator should review payroll reports to ensure employees are being paid the correct rate of pay and there are no unusual transactions.

- Council and/or the Administrator should periodically review detailed revenue and expenditure reports to ensure transactions are being properly posted.

- The Clerk-Treasurer should review monthly income tax and utility revenue reports and compare collections to the amount of deposits.

FINDING NUMBER 2004-007

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

Strong accounting controls require that 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 2004 and 2003, the Village's computer postings and bank reconciliations were not performed on a timely basis. There were unreconciled variances between the Village's bank accounts and the fund balances throughout 2004 and 2003. This was caused by several undetected and unreconciled posting errors that occurred each fiscal year which were never corrected. Not posting or reconciling in a timely manner may result in the following:

- Difficulty in determining the balance in each fund;
- Negative fund balances due to overspending;
- Making expenditures in excess of appropriations; and
- Increased risk of funds being diverted without management's knowledge.

FINDING NUMBER 2004-007
(Continued)

In order to strengthen accountability over the Village's financial activity and reconciliation process, we recommend that transactions be posted in a timely manner. The Clerk 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.

VILLAGE OF EDGERTON
WILLIAMS COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-30186-001	Ohio Revised Code § 731.12 Finding for Recovery for overpayment of Council member for fire department compensation	No	Not Corrected. Finding for Recovery has not been repaid.
2002-30186-002	Ohio Revised Code § 5705.39 Appropriations exceeded estimated resources	No	Partially Corrected. Reported in the management letter.
2002-30186-003	Ohio Revised Code § 5705.40 Approved appropriations did not match those in Village's system	No	Not Corrected. Reissued as Finding 2004-003.
2002-30186-004	Ohio Revised Code § 5705.41(B) Expenditures exceeded appropriations	No	Not Corrected. Reissued as Finding 2004-004.
2002-30186-005	Ohio Revised Code § 5705.10 Interest income misposted to the wrong funds	No	Not Corrected. Reissued as Finding 2004-005.
2002-30186-006	Reportable Condition - Lack of monitoring controls	No	Not Corrected. Reissued as finding 2004-006.

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 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
DECEMBER 30, 2005