



**VILLAGE OF DESHLER
HENRY COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2005 & 2006



Mary Taylor, CPA
Auditor of State

VILLAGE OF DESHLER
HENRY COUNTY

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Mary Taylor, CPA
Auditor of State

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 an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 18, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Deshler, Henry County, (the Village) as of and for the years ended December 31, 2006 and 2005. 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. Additionally, the Village reclassified its presentation of the Income Tax Fund as described in Note 2.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require Villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005, 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, 2006 and 2005, or its changes in financial position or cash flows for the years 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 the Village of Deshler, Henry County, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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 September 18, 2007, 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.



Mary Taylor, CPA
Auditor of State

September 18, 2007

**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, 2006**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$71,436	\$387,823	\$7,661	\$466,920
State Shared Taxes and Permits	6,205			6,205
Intergovernmental Receipts	190,124	73,317	665	264,106
Charges for Services	2,500			2,500
Fines, Licenses, and Permits	4,321			4,321
Earnings on Investments	16,443	97		16,540
Miscellaneous	29,512			29,512
Total Cash Receipts	<u>320,541</u>	<u>461,237</u>	<u>8,326</u>	<u>790,104</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	211,014			211,014
Public Health Services	6,000			6,000
Leisure Time Activities	11,751	7,002		18,753
Basic Utility Services	1,072			1,072
Transportation	689	106,263		106,952
General Government	85,403	49,299		134,702
Capital Outlay	80,925	6,000	5,371	92,296
Total Cash Disbursements	<u>396,854</u>	<u>168,564</u>	<u>5,371</u>	<u>570,789</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(76,313)</u>	<u>292,673</u>	<u>2,955</u>	<u>219,315</u>
Other Financing Receipts and (Disbursements):				
Sale of Capital Assets	600			600
Transfers-In	165,000	15,500		180,500
Transfers-Out	(92,580)	(196,500)		(289,080)
Total Other Financing Receipts and (Disbursements)	<u>73,020</u>	<u>(181,000)</u>		<u>(107,980)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(3,293)	111,673	2,955	111,335
Fund Cash Balances, January 1	8,846	83,882	3,724	96,452
Fund Cash Balances, December 31	<u><u>\$5,553</u></u>	<u><u>\$195,555</u></u>	<u><u>\$6,679</u></u>	<u><u>\$207,787</u></u>
Reserves for Encumbrances, December 31	<u>\$36,325</u>			<u>\$36,325</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 - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$2,624,812
Operating Cash Disbursements:	
Personal Services	457,948
Fringe Benefits	160,127
Contractual Services	1,746,925
Supplies and Materials	240,149
Other	15,495
Total Operating Cash Disbursements	2,620,644
Operating Income	4,168
Non-Operating Cash Receipts:	
Property Tax and Other Local Taxes	
Interest	673
Proceeds from Notes and Bonds	127,418
Other Non-Operating Receipts	52,287
Total Non-Operating Cash Receipts	180,378
Non-Operating Cash Disbursements:	
Debt Service	21,691
Capital Outlay	222,148
Total Non-Operating Cash Disbursements	243,839
Excess of Disbursements over Receipts Before Interfund Transfers	(59,293)
Transfers-In	108,580
Net Receipts Over Disbursements	49,287
Fund Cash Balances, January 1	1,150,367
Fund Cash Balances, December 31	\$1,199,654

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, 2005**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$66,155	\$291,284	\$7,073	\$364,512
State Shared Taxes and Permits	49,836			49,836
Intergovernmental Receipts	116,484	64,864	357	181,705
Charges for Services	2,500			2,500
Fines, Licenses, and Permits	4,539			4,539
Earnings on Investments	9,408	100		9,508
Miscellaneous	26,983	1,576		28,559
	<u>275,905</u>	<u>357,824</u>	<u>7,430</u>	<u>641,159</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	183,695			183,695
Public Health Services	6,000			6,000
Leisure Time Activities	14,277	6,864		21,141
Basic Utility Services	980			980
Transportation	1,000	78,068		79,068
General Government	106,659	27,120		133,779
Debt Service:				
Principal Payments			15,000	15,000
Interest Payments			70	70
Capital Outlay	33,750	12,506	5,268	51,524
	<u>346,361</u>	<u>124,558</u>	<u>20,338</u>	<u>491,257</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(70,456)</u>	<u>233,266</u>	<u>(12,908)</u>	<u>149,902</u>
Other Financing Receipts and (Disbursements):				
Sale of Capital Assets	2,600			2,600
Transfers-In	161,000	1,500	15,170	177,670
Transfers-Out	(86,205)	(187,720)		(273,925)
	<u>77,395</u>	<u>(186,220)</u>	<u>15,170</u>	<u>(93,655)</u>
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	6,939	47,046	2,262	56,247
Fund Cash Balances, January 1	<u>1,907</u>	<u>36,836</u>	<u>1,462</u>	<u>40,205</u>
Fund Cash Balances, December 31	<u>\$8,846</u>	<u>\$83,882</u>	<u>\$3,724</u>	<u>\$96,452</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 - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$1,889,271
Operating Cash Disbursements:	
Personal Services	459,572
Fringe Benefits	150,287
Contractual Services	822,615
Supplies and Materials	251,199
Other	11,654
Total Operating Cash Disbursements	1,695,327
Operating Income	193,944
Non-Operating Cash Receipts:	
Interest	615
Proceeds from Notes and Bonds	33,000
Other Non-Operating Receipts	33,550
Total Non-Operating Cash Receipts	67,165
Non-Operating Cash Disbursements:	
Debt Service	299,949
Other Non-Operating Cash Disbursements	18,879
Total Non-Operating Cash Disbursements	318,828
Excess of Disbursements over Receipts Before Interfund Transfers	(57,719)
Transfers-In	96,255
Net Receipts Over Disbursements	38,536
Fund Cash Balances, January 1	1,111,831
Fund Cash Balances, December 31	\$1,150,367

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, 2006 AND 2005**

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 Deshler Village, Henry County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs 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. Accounting Basis

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

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

C. Cash

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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

Income Tax Fund – This fund receives 1 per cent tax from residents and businesses of the Village. The Village distributes collections by transfer upon Council approval.

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:

Municipal Building Construction Fund – This fund receives proceeds of general obligation bonds. The proceeds are being used to construct a new municipal building.

Swimming Pool Renovation Fund – This fund receives tax levy money for renovations to the Villages 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 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, object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

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 individual 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 2006 and 2005 budgetary activity appears in Note 4.

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. RESTATEMENT OF FUND BALANCE

On January 1, 2005, the Village reclassified the Income Tax Fund from a Fiduciary Type Fund to the Special Revenue Fund Type to better reflect the fund's purpose.

	Fiduciary Fund Type	Special Revenue Fund Type
Fund Balance as previously reported, December 31, 2004	\$20,477	\$16,359
Reclassification of Income Tax Fund	(20,477)	20,477
Fund Balance as restated at January 1, 2005	_____	\$36,836

3. EQUITY IN POOLED CASH

The Village maintains a cash pool all funds use. The Electric Fund holds a 5 year loan with the Village's Water Fund. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

3. EQUITY IN POOLED CASH – (CONTINUED)

	2006	2005
Demand deposits	\$974,565	\$807,563
Certificates of deposit	410,932	410,932
Water fund loan	21,944	28,324
Total deposits	\$1,407,441	\$1,246,819

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

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31 follows:

2006 Budgeted vs. Actual Receipts

	Budgeted	Actual	
Fund Type	Receipts	Receipts	Variance
General	\$587,011	\$486,141	(\$100,870)
Special Revenue	432,108	476,737	44,629
Capital Projects	7,529	8,326	797
Enterprise	3,610,123	2,913,770	(696,353)
Total	\$4,636,771	\$3,884,974	(\$751,797)

2006 Budgeted vs. Actual Budgetary Basis Expenditures

	Appropriation	Budgetary	
Fund Type	Authority	Expenditures	Variance
General	\$585,540	\$525,759	\$59,781
Special Revenue	511,300	365,064	146,236
Capital Projects	11,210	5,371	5,839
Enterprise	3,509,967	2,864,483	645,484
Total	\$4,618,017	\$3,760,677	\$857,340

2005 Budgeted vs. Actual Receipts

	Budgeted	Actual	
Fund Type	Receipts	Receipts	Variance
General	\$543,000	\$439,505	(\$103,495)
Special Revenue	400,156	359,324	(40,832)
Capital Projects	23,500	22,600	(900)
Enterprise	1,931,338	2,052,691	121,353
Total	\$2,897,994	\$2,874,120	(\$23,874)

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

4. BUDGETARY ACTIVITY – (CONTINUED)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$526,903	\$432,566	\$94,337
Special Revenue	414,940	312,278	102,662
Capital Projects	24,710	20,338	4,372
Enterprise	2,636,449	2,014,155	622,294
Total	\$3,603,002	\$2,779,337	\$823,665

Contrary to Ohio law certain Village expenditures were not certified as required by Ohio Revised Code § 5705.41(D)(1).

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Village.

6. 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.

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

7. DEBT

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	\$93,943	4%
Ohio Water Development Authority Loan	127,417	0%
Water Fund Loan	21,944	2.65%
Total	\$243,304	

The Water Fund Loan is an obligation of the Water Fund to the Village's Electric Fund for the purpose of making improvements to the water system. The Loan will be repaid in monthly installments through the year 2010. The loan is secured by the revenues from the Village's water system.

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 the revenues from the Village's sewer system.

The Ohio Water Development Authority (OWDA) loan relates to an Environmental Protection Agency mandated project to separate the sanitary sewer lines from the current sewer system. The Village will install new taps to the owner's property. The total project costs are \$1.519 million. The OWDA approved up to \$127,417 in loans for the design for this project. The Village will repay the loans in semiannual installments of \$12,741, over 5 years. The loan is secured by the revenues from the Village's sewer system.

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

	OPWC Loan	OWDA Loan	Water Fund Loan
Year ending December 31:			
2007	\$14,622	\$25,483	\$7,054
2008	14,622	25,484	7,054
2009	14,622	25,483	7,054
2010	14,622	25,484	1,764
2011	14,622	25,483	
2012 – 2014	36,557		
Total	\$109,667	\$127,417	\$22,926

8. 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.

**VILLAGE OF DESHLER
HENRY COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. RETIREMENT SYSTEMS – (CONTINUED)

The Ohio Revised Code also prescribes contribution rates. For 2006 and 2005, OP&F participants contributed 10% of their wages. For 2006 and 2005, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2006 and 2005, OPERS members contributed 9 and 8.5%, respectively, of their gross salaries and the Village contributed an amount equaling 13.7 and 13.55%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

9. 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 460 Ohio governments ("Members").

Pursuant to Section 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, 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 the Plan with A- VII or better rated carriers, except for the 15% casualty and the 10% property portions the Plan retains. The Plan pays the lesser of 15% or \$37,500 of casualty losses and the lesser of 10% or \$100,000 of property losses. Individual Members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other obligation to the Plan. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004 (the latest information available)

	<u>2005</u>	<u>2004</u>
Assets	\$8,219,430	\$6,685,522
Liabilities	<u>(2,748,639)</u>	<u>(2,227,808)</u>
Members' Equity	<u>\$5,470,791</u>	<u>\$4,457,714</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

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Mary Taylor, CPA

Auditor of State

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

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

To the Village Council:

We have audited the financial statements of the Village of Deshler, Henry County, (the Village) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated September 18, 2007, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America and the Village reclassified its income tax fund. We also noted 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. 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting; 2006-001 through 2006-003.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies above, we believe finding number 2006-003 is also a material weakness.

We noted certain matters that we reported to the Village's management in a separate letter dated September 18, 2007.

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 that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2006-001 and 2006-002.

We also noted a certain noncompliance matter not requiring inclusion in the report that we reported to the Village's management in a separate letter dated September 18, 2007.

We intend this report solely for the information and use of the management and Village Council. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

September 18, 2007

VILLAGE OF DESHLER
HENRY COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-001

Noncompliance Citation / Significant Deficiency

Ohio Revised Code § 5705.41(D)(1) states that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer of the subdivision. The fiscal officer must certify that the amount required for the order or contract 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 encumbrances. Further, contracts and order for expenditures lacking prior certification shall be null and void.

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 sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" certificate – If the fiscal officer can certify 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 Council can authorize the drawing of a warrant for the payment of the amount due. The Council has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Council.

2. Blanket Certificate – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. Super Blanket Certificate – The Council may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification 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.

Twenty-seven percent of the transactions tested, were not certified by the Fiscal Officer at the time the commitment was incurred. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**FINDING NUMBER 2006-001
(Continued)**

Certification is not only required by Ohio law, but is a key control in the disbursements process to help assure purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by the Council.

To improve controls over disbursements, we recommend all disbursements receive prior certification of the Fiscal Officer, we also recommend Council members periodically review the expenditures made to ensure they are within the appropriations adopted by the Council, certified by the Fiscal Officer, and recorded against appropriations.

Management's Response

We did not receive a response from officials to this finding.

FINDING NUMBER 2006-002

Noncompliance Citation / Significant Deficiency

Village Ordinance 1543 § 2, § 8 (c), § 9(a), states that taxable income is compensation paid before any deductions are taken, and is net profit for businesses. The ordinance also states that if the taxpayer does not show the proper amount due the Administrator shall recalculate the return and send a written statement to the taxpayer showing the correct amount owed and any penalties and interest applicable. The Administrator is to keep accurate records for a minimum of five years showing the amount due from each taxpayer required to file a declaration and/or to make a return, including taxes withheld, and to show the dates and amounts of payments thereof. The Village maintains manual records for recording of income tax collections.

The following deficiencies were noted in testing of income tax revenue:

- Individual and business ledgers, indicating who has filed returns, date the returns were filed and amounts collected are not maintained.
- 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.
- No indication was made on the tax returns to show if the return was recalculated as to its accuracy.

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 whether a return has been filed and date 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.

**FINDING NUMBER 2006-002
(Continued)**

- The Village needs to take a more aggressive approach in enforcing the mandatory requirements of the income tax ordinance which include penalties and interest assessed to delinquent filers as required by the Income Tax Ordinance.
- Each return should be recalculated with an indication of such recalculation and any discrepancies in the return should be followed up.
- A payment history by filer should be maintained. The payment history should denote by filer amount paid, date paid, duplicate receipt number and year payment is assessed against.

Management's Response

We did not receive a response from officials to this finding.

FINDING NUMBER 2006-003

Material Weakness

Monitoring of Financial Transactions

Inaccurate posting of transactions impedes the ability of the Council to accurately assess the financial status of the Village. We noted examples such as the following during our audit:

- Sale of capital assets in the amount of \$2,600 in 2005 and \$600 in 2006 was recorded as miscellaneous revenue.
- A loan at \$33,000 from the electric fund to water operating fund in 2005 was recorded as advances and repayment of the loan at \$5,291 in 2005 and \$7,069 in 2006 was recorded as advances.
- A refund for a lease at \$4,194 in 2006 was recorded as proceeds from loans in the electric fund
- OWDA Loan proceeds at \$127,411 in 2006 were recorded as other non-operating receipts in the waste water operating fund.

As a result, the Village's financial statements did not correctly reflect the financial activity of the Village. The accompanying financial statements have been adjusted so these transactions reflect their intended use.

We recommend that the Fiscal Officer post all transactions in accordance with the guidance established by the Uniform Accounting Network manual. Further, the Village should adopt policies and procedures including a final review of the financial statements by the Fiscal Officer and Council to ensure that errors and omissions are detected and corrected.

Management's Response

We did not receive a response from officials to this finding.

**VILLAGE OF DESHLER
HENRY COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	ORC 5705.41 (D) Improper fiscal officer certification of certain expenditures	No	Not corrected reissued as Finding #2006-001
2004-002	Village income tax ordinance 1543 Lack of proper records	No	Not corrected reissued as Finding #2006-002



Mary Taylor, CPA
Auditor of State

VILLAGE OF DESHLER

HENRY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 16, 2007**