



Dave Yost • Auditor of State

VILLAGE OF CUSTAR
WOOD COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Custar
Wood County
23405 Defiance Pike
Custar, Ohio 43511

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Custar, Wood County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2012 and 2011, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Custar, Wood County, Ohio as of December 31, 2012 and 2011, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit, described in Note 1.

Emphasis of Matter

As discussed in Note 1F to the financial statements, during 2011 the Village of Custar adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

November 6, 2013

**VILLAGE OF CUSTAR
WOOD COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

| | General | Special Revenue | Capital Projects | Totals (Memorandum Only) |
|--|-----------------|--------------------|---------------------|--------------------------------|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$22,475 | \$940 | | \$23,415 |
| Intergovernmental | 9,187 | 8,467 | | 17,654 |
| Earnings on Investments | 1,362 | 34 | | 1,396 |
| Miscellaneous | 256 | | | 256 |
| <i>Total Cash Receipts</i> | <u>33,280</u> | <u>9,441</u> | | <u>42,721</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 1,167 | | | 1,167 |
| Leisure Time Activities | 2,452 | | | 2,452 |
| Community Environment | 252 | | | 252 |
| Transportation | | 2,225 | | 2,225 |
| General Government | 19,277 | | | 19,277 |
| Capital Outlay | 3,813 | | | 3,813 |
| <i>Total Cash Disbursements</i> | <u>26,961</u> | <u>2,225</u> | | <u>29,186</u> |
| <i>Excess of Receipts Over Disbursements</i> | 6,319 | 7,216 | | 13,535 |
| Other Financing Disbursements | | | | |
| Other Financing Uses | (91) | | | (91) |
| <i>Net Change in Fund Cash Balances</i> | 6,228 | 7,216 | | 13,444 |
| <i>Fund Cash Balances, January 1</i> | <u>55,331</u> | <u>46,177</u> | <u>\$1,219</u> | <u>102,727</u> |
| Fund Cash Balances, December 31 | | | | |
| Restricted | | 53,393 | 1,219 | 54,612 |
| Unassigned | 61,559 | | | 61,559 |
| <i>Fund Cash Balances, December 31</i> | <u>\$61,559</u> | <u>\$53,393</u> | <u>\$1,219</u> | <u>\$116,171</u> |

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

VILLAGE OF CUSTAR
WOOD COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2012

| | <u>Enterprise</u> |
|---|-------------------------|
| Operating Cash Receipts | |
| Charges for Services | <u>\$219,942</u> |
| Operating Cash Disbursements | |
| Personal Services | 11,557 |
| Employee Fringe Benefits | 2,093 |
| Contractual Services | 186,314 |
| Supplies and Materials | 4,423 |
| Other | <u>425</u> |
| <i>Total Operating Cash Disbursements</i> | <u>204,812</u> |
| <i>Net Change in Fund Cash Balances</i> | 15,130 |
| <i>Fund Cash Balances, January 1</i> | <u>395,736</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$410,866</u></u> |

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

| | General | Special Revenue | Capital Projects | Totals (Memorandum Only) |
|--|-----------------|--------------------|---------------------|--------------------------------|
| Cash Receipts | | | | |
| Property and Other Local Taxes | \$22,268 | \$930 | | \$23,198 |
| Intergovernmental | 8,379 | 8,730 | | 17,109 |
| Fines, Licenses and Permits | 50 | | | 50 |
| Earnings on Investments | 3,955 | 29 | | 3,984 |
| Miscellaneous | 165 | | | 165 |
| <i>Total Cash Receipts</i> | <u>34,817</u> | <u>9,689</u> | | <u>44,506</u> |
| Cash Disbursements | | | | |
| Current: | | | | |
| Security of Persons and Property | 1,253 | | | 1,253 |
| Leisure Time Activities | 2,204 | | | 2,204 |
| Community Environment | 259 | | | 259 |
| Transportation | | 10,298 | | 10,298 |
| General Government | 18,958 | | | 18,958 |
| Capital Outlay | 2,485 | | \$1,511 | 3,996 |
| <i>Total Cash Disbursements</i> | <u>25,159</u> | <u>10,298</u> | <u>1,511</u> | <u>36,968</u> |
| <i>Excess of Receipts Over (Under) Disbursements</i> | 9,658 | (609) | (1,511) | 7,538 |
| Other Financing Disbursements | | | | |
| Transfers Out | (2,194) | | | (2,194) |
| Other Financing Uses | (87) | | | (87) |
| <i>Total Other Financing Disbursements</i> | <u>(2,281)</u> | | | <u>(2,281)</u> |
| <i>Net Change in Fund Cash Balances</i> | 7,377 | (609) | (1,511) | 5,257 |
| <i>Fund Cash Balances, January 1</i> | <u>47,954</u> | <u>46,786</u> | <u>2,730</u> | <u>97,470</u> |
| Fund Cash Balances, December 31 | | | | |
| Restricted | | 46,177 | 1,219 | 47,396 |
| Unassigned | 55,331 | | | 55,331 |
| <i>Fund Cash Balances, December 31</i> | <u>\$55,331</u> | <u>\$46,177</u> | <u>\$1,219</u> | <u>\$102,727</u> |

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

VILLAGE OF CUSTAR
WOOD COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCE (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2011

| | <u>Enterprise</u> |
|---|-------------------------|
| Operating Cash Receipts | |
| Charges for Services | <u>\$253,570</u> |
| Operating Cash Disbursements | |
| Personal Services | 13,725 |
| Employee Fringe Benefits | 2,067 |
| Contractual Services | 184,606 |
| Supplies and Materials | <u>7,934</u> |
| <i>Total Operating Cash Disbursements</i> | <u>208,332</u> |
| <i>Operating Income</i> | 45,238 |
| Transfers In | <u>2,194</u> |
| <i>Net Change in Fund Cash Balances</i> | 47,432 |
| <i>Fund Cash Balances, January 1</i> | <u>348,304</u> |
| <i>Fund Cash Balances, December 31</i> | <u><u>\$395,736</u></u> |

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011**

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 Custar, Wood County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides electric utility and park operations. The Village contracts with the Village of Weston to provide ambulance service.

The Village participates in two joint ventures, one jointly governed organization, the Ohio Risk Plan Management public entity risk pool, and one long term purchase commitment. Notes 6, 7, 8, 9, 10 and 11 to the financial statements provides additional information for these entities. These organizations are:

Joint Ventures:

Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV2)
Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5)

Jointly Governed Organization:

AMP Ohio

Public Entity Risk Pool:

Ohio Plan Risk Management (OPRM) is available to public entities in Ohio.
OPRM provides property and casualty coverage for its members.

Long Term Purchase Commitments:

American Municipal Power Generating Station (AMGS)

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

B. Accounting Basis

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

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

C. Deposits and Investments

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

The Village values certificates of deposit at cost.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue Funds

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

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

Permissive Motor Vehicle License Fund – This fund receives license tax money that is restricted to repairing the roads.

3. Capital Project Funds

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

Special Assessment Construction Fund – This fund received special assessments. The proceeds were used for noise abatement.

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 Fund:

Electric Fund - This fund receives charges for services from residents to cover electric service costs.

E. Budgetary Process

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

1. Appropriations

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

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

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year.

A summary of 2012 and 2011 budgetary activity appears in Note 3.

F. Fund Balance

In 2011, the Village implemented GASB Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions*". GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. GASB Statement No. 54 also clarifies the definition of governmental fund types. The implementation on GASB Statement No. 54 did not have an effect on the previously reported fund balances.

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

1. Nonspendable

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

2. Restricted

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

3. Committed

Council can *commit* amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

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

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. Equity in Pooled Deposits

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

| | 2012 | 2011 |
|-------------------------|-----------|-----------|
| Demand deposits | \$363,822 | \$336,472 |
| Certificates of deposit | 163,215 | 161,991 |
| Total deposits | \$527,037 | \$498,463 |

Deposits: Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2012 and 2011 follows:

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

2012 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|-----------------|
| General | \$27,089 | \$33,280 | \$6,191 |
| Special Revenue | 9,879 | 9,441 | (438) |
| Enterprise | 213,000 | 219,942 | 6,942 |
| Total | <u>\$249,968</u> | <u>\$262,663</u> | <u>\$12,695</u> |

2012 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|----------------------------|---------------------------|-----------------|
| General | \$30,551 | \$27,052 | \$3,499 |
| Special Revenue | 7,335 | 2,225 | 5,110 |
| Capital Projects | 14,970 | | 14,970 |
| Enterprise | 217,707 | 204,812 | 12,895 |
| Total | <u>\$270,563</u> | <u>\$234,089</u> | <u>\$36,474</u> |

2011 Budgeted vs. Actual Receipts

| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
|-----------------|----------------------|--------------------|-----------------|
| General | \$32,845 | \$34,817 | \$1,972 |
| Special Revenue | 10,145 | 9,689 | (456) |
| Enterprise | 209,870 | 255,764 | 45,894 |
| Total | <u>\$252,860</u> | <u>\$300,270</u> | <u>\$47,410</u> |

2011 Budgeted vs. Actual Budgetary Basis Expenditures

| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
|------------------|----------------------------|---------------------------|-----------------|
| General | \$27,468 | \$27,440 | \$28 |
| Special Revenue | 12,279 | 10,298 | 1,981 |
| Capital Projects | 16,481 | 1,511 | 14,970 |
| Enterprise | 222,275 | 208,332 | 13,943 |
| Total | <u>\$278,503</u> | <u>\$247,581</u> | <u>\$30,922</u> |

Contrary to Ohio law, \$7,978 of property taxes was posted to the Enterprise Fund instead of the General Fund in 2012.

4. Property Tax

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

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

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

5. Retirement System

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

For 2012 and 2011, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2012.

6. Risk Management

The Village belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 767 and 765 members as of December 31, 2012 and 2011 respectively.

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

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

The Pool's audited financial statements conform with generally accepted accounting principles, and

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011.

| | 2012 | 2011 |
|-----------------|--------------|--------------|
| Assets | \$13,100,381 | \$12,501,280 |
| Liabilities | (6,687,193) | (5,328,761) |
| Members' Equity | \$6,413,188 | \$7,172,519 |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

7. Ohio Municipal Electric Generation Agency Venture (OMEGA JV2)

The Village of Custar is a Non-Financing Participant and an Owner Participant with an ownership percentage of .0029833% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

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

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero, with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2012, the outstanding debt was \$20,030,648. The Village's net investment in OMEGA JV2 was \$781 at December 31, 2012. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

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

| Municipality | Percent Ownership | Kw Entitlement | Municipality | Percent Ownership | Kw Entitlement |
|--------------|-------------------|----------------|--------------|-------------------|----------------|
| Hamilton | 23.87% | 32,000 | Grafton | 0.79% | 1,056 |

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

| | | | | | |
|----------------|---------------|----------------|----------------|----------------|----------------|
| 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 |
| | <u>95.20%</u> | <u>127,640</u> | | <u>4.80%</u> | <u>6,441</u> |
| | | | Grand Total | <u>100.00%</u> | <u>134,081</u> |

8. Ohio Municipal Electric Generation Agency Venture (OMEGA JV5)

The Village of Custar is a Financing Participant with an ownership percentage of .06 %, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2012 Custar has met their debt coverage obligation.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The Village's net investment to date in OMEGA JV5 was \$5,863 at December 31, 2012. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

9. AMP Ohio

The Village is a member of AMP-Ohio which is a jointly governed organization between 80 municipalities throughout Ohio, two municipalities in West Virginia, three municipalities in Pennsylvania and one municipality in Michigan. The purpose of AMP-Ohio is to provide electric capacity and energy and to furnish other services to its members.

AMP-Ohio is governed by a Board of Trustees consisting of sixteen members. Each member designates its own representative to the Board of Trustees. Eight of the trustee members are selected by their fellow AMP-Ohio members in each of the services groups. The other eight Board members are elected at large. The main source of revenues is from the sale of electric power. The Village remitted \$174,959 for 2012 and \$162,877 for 2011 to AMP-Ohio.

10. Segment Information

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric Generation Agency (OMEGA) Joint Ventures as described in notes 7 and 8. The Village is liable for debt related to the financing of the OMEGA joint ventures. The activity is accounted for in the Village's Electric Fund, which is reported as part of the combined Enterprise Fund Type in the financial statements. Summary financial information for the Electric Fund is presented below:

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

| | 2012 | 2011 |
|----------------------------------|-----------|-----------|
| Total Assets | \$404,019 | \$389,789 |
| Total Liabilities | \$72,284 | \$78,299 |
| Condensed Operating Information: | | |
| Operating Receipts | | |
| Charges for Services | 218,617 | 253,220 |
| Operating Expenses | 204,387 | 208,332 |
| Operating Income | 14,230 | 44,888 |
| Transfers | | 2,194 |
| Change in Fund Cash Balance | 14,230 | 47,082 |
| Beginning Fund Cash Balance | 389,789 | 342,707 |
| Ending Fund Cash Balance | \$404,019 | \$389,789 |

| Condensed Cash Flows Information: | 2012 | 2011 |
|--|-----------|-----------|
| Net Cash Provided by: | | |
| Operating Activities | \$14,230 | \$44,888 |
| Noncapital Financing Activities | | |
| Other Noncapital Financing Activities | | 2,194 |
| Net Increase | 14,230 | 47,082 |
| Beginning Fund Cash Balance | 389,789 | 342,707 |
| Ending Fund Cash Balance | \$404,019 | \$389,789 |

11. American Municipal Power Generating Station Project

The Village of Custar is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The Village executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

History of the AMPGS Project

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. (Please see attached Joint Resolution No. 09-11-2891 dated November 24, 2009.) The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2012, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2012 AMP has a regulatory asset of \$96,544,650 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

AMP has consistently communicated with the AMPGS participants as to the risks and uncertainties with respect to the outstanding potential liability the Village has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

Based on an allocation to the Village of 110 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2012 the Village of Custar has a potential stranded cost obligation of \$18,851 for the AMPGS Project. The Village of Custar does not have any payments on deposit with AMP at December 31, 2012.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011
(Continued)**

Recording of Stranded Costs

The Village of Custar has not requested an invoice from AMP for the potential stranded costs and has not recorded stranded costs for the AMPGS project. The Village is not intending to request an invoice from AMP until such time as the litigation with the EPC contractor is finalized.

Had the Village chosen to expense the potential stranded costs the Village believes it would have not violated its covenant obligations for its Electric Fund bonds or its debt covenant obligations with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5/2.



Dave Yost • Auditor of State

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

Village of Custar
Wood County
23405 Defiance Pike
Custar, Ohio 43511

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Custar, Wood County, Ohio (the Village) as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2013 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit and wherein the Village adopted Governmental Accounting Standards Board Statement No. 54 in 2011.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2012-001 and 2012-002 described in the accompanying schedule of findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as item 2012-001.

Entity's Response to Findings

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

November 6, 2013

**VILLAGE OF CUSTAR
WOOD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012 AND 2011**

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

FINDING NUMBER 2012-001

Noncompliance Citation/Material Weakness

Ohio Revised Code §5705.10 states in part, all revenue derived from the following must be paid into the general fund:

- the general levy for current expense within the ten mill limitation,
- any general levy for current expense authorized by vote in excess of the ten mill limitation

Property taxes of \$7,978 were posted to the Enterprise Fund instead of the General Fund in 2012. The accompanying financial statements have been adjusted to correct these errors.

We recommend the Fiscal Officer review the tax settlement sheets obtained from the County Auditor and post taxes accordingly.

Officials' Response:

We will work on correcting this by implanting a manual to explain procedures and what accounts are to be used for revenue and expenditures.

FINDING NUMBER 2012-002

Material Weakness

Financial Reporting

Sound financial reporting is the responsibility of the fiscal officer and the Village Council and it is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

The financial statements contained errors, such as the following:

- Delinquent utility receipts were posted to local taxes in the General Fund instead of charges for services in the Enterprise Fund which overstated the General Fund and understated the Enterprise Fund in 2011 by \$3,321 and \$174 in 2012.
- Kilowatt tax was posted to intergovernmental revenue instead of taxes while Homestead & Rollback and Fixed Rate Loss were posted to taxes instead of intergovernmental revenue for a difference of \$2,383 in 2011.
- Homestead & Rollback and Fixed Rate Loss were posted to taxes instead of intergovernmental revenue for a difference of \$5,473 in 2012.
- Kilowatt tax was not transferred to the General Fund for part of 2011 and all of 2012 resulting in overstating the Enterprise Fund and understating the General Fund by \$3,051 and \$8,528, respectively.

Adjusting entries ranging in amounts from \$23 to \$8,528 were posted to the financial statements to correct these and other errors

To ensure the Village's financial statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements by the Fiscal Officer and Village Council, to identify and correct errors and omissions. The Fiscal Officer should also review the Village Handbook's chart of accounts to ensure all accounts are being properly posted to the financial statements.

Officials' Response:

We will work on correcting this by implanting a manual to explain procedures and what accounts are to be used for revenue and expenditures.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012 AND 2011**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2010-001 | Ohio Revised Code Section 5705.41(B) for expenditures exceeding appropriations. | Yes | |
| 2010-002 | Ohio Revised Code Section 5705.39 for appropriations exceeding estimated revenue. | No | Partially corrected and repeated in the Management Letter. |

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VILLAGE OF CUSTAR

WOOD 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
NOVEMBER 26, 2013**