VILLAGE OF PROSPECT
MARION COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

Dave Yost • Auditor of State

VILLAGE OF PROSPECT
MARION COUNTY

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INDEPENDENT AUDITOR'S REPORT

Village of Prospect
Marion County
139 Main Street
Prospect, Ohio 43342

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Prospect, Marion 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 Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; 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.

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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(D), 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 or cash flows 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 Prospect, Marion 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(D) permit, described in Note 1.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2011, the Village adopted the provisions of Governmental Accounting Standard No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2014, 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

Dave Yost
Auditor of State
Columbus, Ohio

February 19, 2014

VILLAGE OF PROSPECT
MARION 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	Debt Service	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	$ 78,306.81	$ 21,393.23	$ -	$ 99,700.04
Intergovernmental	50,958.62	53,016.54	-	103,975.16
Fines, Licenses and Permits	7,023.00	-	-	7,023.00
Earnings on Investments	410.94	-	-	410.94
Miscellaneous	1,881.14	-	-	1,881.14
Total Cash Receipts	138,580.51	74,409.77	-	212,990.28
Cash Disbursements				
Current:				
Security of Persons and Property	55,575.22	-	-	55,575.22
Public Health Services	2,250.00	-	-	2,250.00
Transportation	-	70,555.87	-	70,555.87
General Government	53,336.82	-	-	53,336.82
Total Cash Disbursements	111,162.04	70,555.87	-	181,717.91
Excess of Receipts Over Disbursements	27,418.47	3,853.90	-	31,272.37
Other Financing Receipts (Disbursements)				
Transfers In	-	14,700.00	-	14,700.00
Transfers Out	(14,700.00)	-	-	(14,700.00)
Other Financing Sources	16,518.71	-	-	16,518.71
Total Other Financing Receipts (Disbursements)	1,818.71	14,700.00	-	16,518.71
Net Change in Fund Cash Balances	29,237.18	18,553.90	-	47,791.08
Fund Cash Balances, January 1	51,523.32	27,234.88	530.68	79,288.88
Fund Cash Balances, December 31				
Restricted	-	45,788.78	530.68	46,319.46
Unassigned (Deficit)	80,760.50	-	-	80,760.50
Fund Cash Balances, December 31	$ 80,760.50	$ 45,788.78	$ 530.68	$ 127,079.96

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

VILLAGE OF PROSPECT
MARION COUNTY

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

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts	
Charges for Services	$1,330,272.41
Miscellaneous	640.25
Total Operating Cash Receipts	1,330,912.66
Operating Cash Disbursements	
Personal Services	219,712.31
Employee Fringe Benefits	142,122.48
Contractual Services	664,532.22
Supplies and Materials	80,559.31
Other	857.25
Total Operating Cash Disbursements	1,107,783.57
Operating Income	223,129.09
Non-Operating Receipts (Disbursements)	
Property and Other Local Taxes	29,584.29
Intergovernmental	1,594.78
Miscellaneous Receipts	36,234.60
Capital Outlay	(4,903.33)
Principal Retirement	(141,406.90)
Interest and Other Fiscal Charges	(15,786.32)
Other Financing Uses	(16,518.71)
Total Non-Operating Receipts (Disbursements)	(111,201.59)
Net Change in Fund Cash Balances	111,927.50
Fund Cash Balances, January 1	1,307,184.85
Fund Cash Balances, December 31	$1,419,112.35

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

VILLAGE OF PROSPECT
MARION 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	Debt Service	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	$ 79,363.48	$ 21,990.63	$ -	$ 101,354.11
Intergovernmental	43,797.60	53,921.01	-	97,718.61
Fines, Licenses and Permits	3,054.50	-	-	3,054.50
Earnings on Investments	774.34	-	-	774.34
Miscellaneous	2,737.68	87.50	-	2,825.18
Total Cash Receipts	129,727.60	75,999.14	-	205,726.74
Cash Disbursements				
Current:				
Security of Persons and Property	74,534.78	-	-	74,534.78
Public Health Services	1,000.00	-	-	1,000.00
Transportation	-	83,019.88	-	83,019.88
General Government	89,560.88	-	-	89,560.88
Total Cash Disbursements	165,095.66	83,019.88	-	248,115.54
Excess of Receipts Under Disbursements	(35,368.06)	(7,020.74)	-	(42,388.80)
Other Financing Receipts (Disbursements)				
Transfers In		9,200.00	8,121.14	17,321.14
Transfers Out	(9,200.00)			(9,200.00)
Other Financing Sources	16,518.71			16,518.71
Total Other Financing Receipts (Disbursements)	7,318.71	9,200.00	8,121.14	24,639.85
Net Change in Fund Cash Balances	(28,049.35)	2,179.26	8,121.14	(17,748.95)
Fund Cash Balances, January 1	79,572.67	25,055.62	(7,590.46)	97,037.83
Fund Cash Balances, December 31				
Restricted	-	27,234.88	530.68	27,765.56
Assigned	40,309.24	-	-	40,309.24
Unassigned (Deficit)	11,214.08	-	-	11,214.08
Fund Cash Balances, December 31	$ 51,523.32	$ 27,234.88	$ 530.68	$ 79,288.88

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

VILLAGE OF PROSPECT
MARION COUNTY

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

	Proprietary Fund Types
	Enterprise
Operating Cash Receipts	
Charges for Services	$ 1,293,821.06
Miscellaneous	5,633.48
Total Operating Cash Receipts	1,299,454.54
Operating Cash Disbursements	
Personal Services	220,431.96
Employee Fringe Benefits	132,256.32
Contractual Services	817,460.10
Supplies and Materials	45,365.71
Other	1,555.60
Total Operating Cash Disbursements	1,217,069.69
Operating Income	82,384.85
Non-Operating Receipts (Disbursements)	
Property and Other Local Taxes	30,244.78
Intergovernmental	1,599.55
Miscellaneous Receipts	24,085.10
Principal Retirement	(131,633.30)
Interest and Other Fiscal Charges	(16,284.28)
Other Financing Uses	(16,518.71)
Total Non-Operating Receipts (Disbursements)	(108,506.86)
Loss before Transfers	(26,122.01)
Transfers Out	(8,121.14)
Net Change in Fund Cash Balances	(34,243.15)
Fund Cash Balances, January 1	1,341,428.00
Fund Cash Balances, December 31	$ 1,307,184.85

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 Prospect, Marion County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides sewer, solid waste, and electric utilities, and pool services. The Village contracts with the Marion County Sheriff's department to provide security of persons and property.

The Village participates in two joint ventures and the Public Entity Pool of Ohio public entity risk pool. Notes 7 and 8 to the financial statements provides additional information for these entities. These organizations are:

Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) – The Village is a participant with twenty other subdivisions within the State of Ohio in a joint venture for the purpose of providing electric power and energy to its participants on a cooperative basis.

Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5) - The Village is a financing participant with an ownership percentage of 0.27%, and shares participation with forty-one other subdivisions within the State of Ohio. Financing participants own undivided interests, as tenants in common, without right of partition in the project.

Public Entities Pool of Ohio (PEP) - The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local Villages. PEP provides property and casualty coverage for its members.

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.

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

1. Summary of Significant Accounting Policies (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:

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

3. Debt Service Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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:

<u>Electric Operating Fund</u> - This fund receives charges for services from residents to cover the cost of providing electric service.

<u>Solid Waste Operating Fund</u> - This fund receives charges for services from residents to cover the cost of providing this service.

<u>Sewer Fund</u> - This fund receives charges for services from residents to cover sewer service costs.

1. Summary of Significant Accounting Policies (Continued)

E. Budgetary Process

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

1. Appropriations

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

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. .

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

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance (Continued)

3. Committed

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

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 and Investments

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

	2012	2011
Demand deposits	$482,571	$823,259
Certificates of deposit	500,000	0
Total deposits	982,571	823,259
STAR Ohio	563,621	563,215
Total investments	563,621	563,215
Total deposits and investments	$1,546,192	$1,386,474

2. Equity in Pooled Deposits and Investments (Continued)

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

3. Budgetary Activity

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

2012 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$176,662	$155,099	($21,563)
Special Revenue	141,011	89,110	(51,901)
Enterprise	1,374,462	1,398,326	23,864
Total	$1,692,135	$1,642,535	($49,600)

2012 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$202,605	$125,862	$76,743
Special Revenue	134,468	70,556	63,912
Enterprise	2,619,042	1,289,113	1,329,929
Total	$2,956,115	$1,485,531	$1,470,584

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$187,337	$146,246	($41,091)
Special Revenue	105,141	85,199	(19,942)
Debt Service Fund	13,765	8,121	(5,644)
Enterprise	1,290,707	1,355,384	64,677
Total	$1,596,950	$1,594,950	($2,000)

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$382,989	$180,993	$201,996
Special Revenue	114,093	83,020	31,073
Debt Service Fund	18,442	0	18,442
Enterprise	2,615,860	1,404,865	1,210,995
Total	$3,131,384	$1,668,878	$1,462,506

4. Property Tax

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

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

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.

5. Debt

Debt outstanding at December 31, 2012 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission Loan	$225,850	0%
Ohio Water Development Authority Loan	1,683,480	0%
AMP Ohio Payable - JV5	210,205	Variable
Total	$2,119,535	

The Village entered into an agreement in 2004 with the Ohio Public Works Commission (OPWC) to loan $322,646 for water system improvements. The loan will be repaid in semi-annual installments of $8,066, over 20 years. The loan is scheduled to be paid off on July 1, 2026.

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant project the Ohio Environmental Protection Agency mandated. The OWDA approved $2,244,642 in loans to the Village for this project. The Village will repay the loan in semiannual installments of $56,116, over 20 years. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Information regarding AMP Ohio Payable – JV5 is included in Note 8 to the financial statements.

5. Debt (Continued)

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

Year ending December 31:	OWDA Loan	OPWC Loan	AMP Ohio Payable - JV5
2013	$112,232	$16,132	$2,403
2014	112,232	16,132	28,813
2015	112,232	16,132	28,835
2016	112,232	16,132	29,271
2017	112,232	16,132	28,839
2018-2022	561,160	80,661	144,112
2023-2027	561,160	64,529	57,659
Total	$1,683,480	$225,850	$319,932

6. Retirement Systems

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

The Ohio Revised Code also prescribes contribution rates. 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.

7. Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (formerly known as American Risk Pooling Consultants, Inc.), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

<u>Casualty and Property Coverage</u>
APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2012, PEP retained $350,000 for casualty claims and $150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

7. Risk Management (Continued)

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2012 and 2011:

	2012	2011
Assets	$34,389,569	$33,362,404
Liabilities	(14,208,353)	(14,187,273)
Net Position	$20,181,216	$19,175,131

At December 31, 2012 and 2011, respectively, the liabilities above include approximately $13.1 million and $13.0 million of estimated incurred claims payable. The assets above also include approximately $12.6 million and $12.1 million of unpaid claims to be billed to approximately 466 and 455 member governments in the future, as of December 31, 2012 and 2011, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2012, the Village's share of these unpaid claims collectible in future years is approximately $15,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP	
2012	**2011**
17,580	14,096

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

8. Joint Ventures

A. Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1)

The Village's Electric Enterprise Fund participates in a joint venture agreement with 20 other municipal electric systems who have formed the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) for the purpose of providing electric power and energy to its participants on a cooperative basis. The electric generating facilities of OMEGA JV1, known as the Engle Units, are located in the City. Title to these six diesel-powered generating units was transferred to the 21 municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's 85 municipal electric systems. Each member has a contract, which provides for AMP-Ohio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. Complete financial statements for OMEGA JV1 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

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

The Village of Prospect is a Financing Participant with an ownership percentage of .27%, 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 Prospect has met their debt coverage obligation.

8. Joint Ventures (Continued)

B. Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) (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 $26,384 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. American Municipal Power Generating Station Project

The Village of Prospect 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. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a $3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

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

9. American Municipal Power Generating Station Project (Continued)

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

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

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

Based on an allocation to Prospect of 1,088 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2012 the Village of Prospect has a potential stranded cost obligation of $185,791 for the AMPGS Project. The Village of Prospect does not have any payments on deposit with AMP at December 31, 2012.

AMP Fremont Energy Center (AFEC) Development Fee –
The AFEC Development Fee is the amount paid by AFEC participants to the AMPGS project as a Development Fee in August, 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC Participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board. The Village is a participant in the AFEC project and has received a credit to reduce its share of AMPGS potential stranded costs as noted below.

9. American Municipal Power Generating Station Project (Continued)

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the Village receives a credit of $56,536 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 540 and the total kW share of those participating in both projects. The Village has not recorded this credit in its financial statements as of December 31, 2012.

Recording of Stranded Costs

The Village has not requested an invoice from AMP for the potential stranded costs. 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 not have violated its debt covenant obligation with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5.

10. AMP Fremont Energy Center (AFEC)

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

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

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

The Village of Prospect has executed a take-or-pay power sales contract with AMP for 540 kW or 0.12% of capacity and associated energy from the AFEC facility. The Village's share of the permanent financing is approximately $655,302.

11. Meldahl Hydroelectric Project and Greenup

AMP is currently constructing a three unit hydroelectric generation facility on the Captain Anthony Meldahl Locks and Dam, an existing dam, on the Ohio River, constructed by the United States Army Corps of Engineers and of related equipment and associated transmission facilities (the "Meldahl Project"). When the Meldahl Project enters commercial operation, it is projected to have a generating capacity of approximately 105 MW. The City of Hamilton, Ohio, a Member of AMP and a participant in the Meldahl Project, and AMP hold, as co-licensees, the Federal Energy Regulatory Commission license necessary to construct and operate the Meldahl Project. Pursuant to the various agreements between Hamilton and AMP, the Meldahl Project will be owned by Meldahl, LLC, a single member, Delaware not-for-profit limited liability company ("Meldahl, LLC"), and will be operated by Hamilton. AMP, acting as agent of Meldahl LLC, is financing the development, acquisition, construction and equipping of the Meldahl Project. In order to finance the construction of the Meldahl Project and related costs, in 2010 and 2011 AMP issued six series of its Meldahl Hydroelectric Project Revenue Bonds (the "Meldahl Bonds") in the amount of $685,100,000 consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Meldahl Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 48 of its Members.

The Village of Prospect has executed a take-or-pay power sales contract with AMP for 45 kW or 0.04% of capacity and associated energy from the hydro facility. The Village's share of the debt is approximately $274,040.

All major contracts for the project which include the turbine, the powerhouse construction, the powerhouse gate, the powerhouse crane, and the transformer have been awarded for the Meldahl facility. And the property right-of-way acquisitions for the transmission line have been completed for this project.

As of June 1, 2012, AMP estimates the Meldahl Project will enter commercial operation in the second quarter of 2014.

Please note that this date is subject to change and is dependent on a number of factors affecting the project's construction schedule, including weather. As a result, this date may be revised to reflect earlier or later expected commercial operation as construction progresses. AMP will update the above expected commercial operation date in the 4th quarter of 2013 after the construction season ends.

The referenced agreements with Hamilton respecting the Meldahl Project also provided that Hamilton would sell to AMP a 48.6% undivided ownership interest in the Greenup Hydroelectric Facility ("Greenup"), a 70.2 MW run-of-the river hydroelectric generating facility located on the Greenup Locks and Dam on the Ohio River, in commercial operation since 1988. The sale is contingent upon the placement of the Meldahl Project into commercial operation. Based on the estimated commercial operation date for the Meldahl Project, AMP currently estimates that it will issue bonds to finance its undivided ownership interest in Greenup in the second or third quarter of 2014. AMP's Greenup bonds will be secured by a separate power sales contract that has been executed by the same Members (all except Hamilton which will retain title to the remaining 51.4% ownership interest in Greenup) that executed the Meldahl power sales contract. Hamilton will continue to operate Greenup.

12. Combined Hydroelectric Projects

AMP is currently developing three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the "Combined Hydroelectric Projects"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects entails the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers' dams and includes associated transmission facilities. The Combined Hydroelectric Projects, including associated transmission facilities, will be constructed and operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Projects. AMP received the last of the material permits needed to begin construction on the Cannelton hydroelectric facility and Smithland hydroelectric facility, respectively in 2009. Ground breaking ceremonies were held for Cannelton on August 25, 2009 and for Smithland on September 1, 2010. AMP received the last of the material permits for the Willow Island hydroelectric facility in the last quarter of 2010 and ground breaking ceremonies took place on July 21, 2011.

The Village of Prospect has executed a take-or-pay power sales contract with AMP for 200 kW or 0.10% of capacity and associated energy from the hydro facilities.

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

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

Please note that this date is subject to change and is dependent on a number of factors affecting the project's construction schedule, including weather. As a result, this date may be revised to reflect earlier or later expected commercial operation as construction progresses. AMP will update the above expected commercial operation date in the 4th quarter of 2013 after the construction season ends.

To provide financing for the Combined Hydroelectric Projects, in 2009 and 2010 AMP has issued in seven series $2,045,425,000 of its Combined Hydroelectric Projects Revenue Bonds (the "Combined Hydroelectric Bonds"), consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds) of which the Village of Prospect's share is approximately $2,045,425. The Combined Hydroelectric Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

13. Prairie State Energy Campus

On December 20, 2007, AMP acquired 368,000kW or an effective 23.26% undivided ownership interest (the "PSEC Ownership Interest") in the Prairie State Energy Campus ("PSEC"), a planned 1,600 MW coal-fired power plant and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company ("AMP 368 LLC"). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007.

13. Prairie State Energy Campus (Continued)

The Village of Prospect has executed a take-or-pay power sales contract with AMP for 100 kW or 0.03% kW of capacity and associated energy from the Prairie State facility.

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

AMP's share of the total Project costs, including AMP's share of PSEC capital improvements through 2016, resulted in the issuance by AMP of approximately $1.696 billion of debt of which the Village of Prospect's share is approximately $509,040. These estimated costs include (i) AMP's costs of acquisition of its Ownership Interest and its share of the cost of construction of the PSEC, including an allowance for contingencies, (ii) capitalized interest during and after the scheduled in service dates of the two PSEC Units, (iii) costs of issuance associated with both the interim and long-term financing for the Project and (iv) deposits to the Parity Common Reserve Account for the Bonds issued to permanently finance the Project

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

14. 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 Note 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:

14. Segment Information (Continued)

	2012	2011
Total Assets	926,917	835,356
Total Liabilities	319,932	348,761
Condensed Operating Information:		
Operating Receipts		
Charges for Services	909,578	867,558
Other Operating Receipts	640	5,633
Total Operating Receipts	910,218	873,191
Operating Expenses	823,170	937,547
Operating Income (Loss)	87,048	(64,356)
Nonoperating Receipts (Disbursements)		
Principal Payments	(13,042)	(12,544)
Interest Payments	(15,786)	(16,284)
Other Nonoperating Receipts (Disbursements)	33,341	27,328
Change in Fund Cash Balance	91,561	(65,856)
Beginning Fund Cash Balance	835,356	901,212
Ending Fund Cash Balance	926,917	835,356

	2012	2011
Condensed Cash Flows Information:		
Net Cash Provided (Used) by:		
Operating Activities	87,048	(64,356)
Noncapital Financing Activities		
Principal Payments on Noncapital Debt	(13,042)	(12,544)
Interest Payments on Noncapital Debt	(15,786)	(16,284)
Other Noncapital Financing Activities	37,764	27,328
Net Cash Provided (Used) by Noncapital Financing Activities	8,936	(1,500)

	2012	2011
Condensed Cash Flows Information:		
Capital and Related Financing Activities		
Other Capital and Related Financing Activities	(4,423)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(4,423)	-
Net Increase (Decrease)	91,561	(65,856)
Beginning Fund Cash Balance	835,356	901,212
Ending Fund Cash Balance	926,917	835,356

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

Village of Prospect
Marion County
139 N. Main Street
Prospect, Ohio 43342

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 Prospect, Marion 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 February 19, 2014 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 permit.

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.

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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 is 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

February 19, 2014

VILLAGE OF PROSPECT
MARION 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 / Material Weakness – KwH Tax

Ohio Rev. Code § 5727.81(A) provides that for the purpose of raising revenue for public education and state and local government operations, an excise tax is hereby levied and imposed on an electric distribution company for all electricity distributed by such company at the following rates per kilowatt hour of electricity distributed in a thirty-day period by the company through a meter of an end user in this state:

(1) Multiplying $0.00465 per kilowatt hour for the first sixty-seven kilowatt hours distributed using a daily average;
(2) Multiplying $0.00419 for the next sixty-eight to five hundred kilowatt hours distributed using a daily average;
(3) Multiplying $0.00363 for the remaining kilowatt hours distributed using a daily average.

The electric distribution company shall pay the tax to the tax commissioner in accordance with section 5727.82 of the Revised Code, unless required to remit each tax payment by electronic funds transfer to the treasurer of state in accordance with section 5727.83 of the Revised Code.

Additionally, Ohio Rev. Code § 5727.82(A)(1) provides that except as provided in divisions (A)(3) and (D) of this section, by the twentieth day of each month, each electric distribution company required to pay the tax imposed by section 5727.81 of the Revised Code shall file with the tax commissioner a return as prescribed by the tax commissioner and shall make payment of the full amount of tax due for the preceding month. The first payment of this tax shall be made on or before June 20, 2001. The electric distribution company shall make payment to the tax commissioner unless required to remit each tax payment by electronic funds transfer to the treasurer of state as provided in section 5727.83 of the Revised Code.

Ohio Rev. Code § 5727.82(A)(3) further provides that if the electric distribution company required to pay the tax imposed by section 5727.81 of the Revised Code is a municipal electric utility, it may retain in its general fund that portion of the tax on the kilowatt hours distributed to end users located within the boundaries of the municipal corporation. However, the municipal electric utility shall make payment in accordance with division (A)(1) of this section of the tax due on the kilowatt hours distributed to end users located outside the boundaries of the municipal corporation.

During 2012 and 2011, the Village failed to allocate the portion of the tax on the kilowatt hours distributed to end users located within the boundaries of the Village to the General Fund in the amounts of $31,838 and $31,825, respectively. The Village has agreed to and posted adjustments, which are reflected in the financial statements and accounting records.

We recommend that the Village allocate the portion of the tax on the kilowatt hours distributed to end users located within the boundaries of the Village to the General Fund in accordance with Ohio Rev. Code § 5727.82(A)(3).

Officials' Response

Effective Jan. 1, 2013, "Inside the Village" KWH tax revenue is being designated to the General Fund Acct. #1000-190-0000 as directed. Outside the village KWH tax is reported in revenue as Acct. #5301-190-0000 and is paid monthly to Ohio Department of Taxation KWH using the KWH report of usage.

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

FINDING NUMBER 2012-002

Material Weakness – Financial Reporting

Sound financial reporting is the responsibility of the Clerk/Treasurer, Mayor, Village Administrator, and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate.

Thirty-seven audit adjustments and reclassifications were made to the financial statements to accurately reflect receipts and expenditures. These adjustments and reclassifications ranged in dollar amounts from $185 to $41,461. Below are descriptions of the types of adjustments and reclassifications that needed to be posted on the Village's December 31, 2012 and 2011 financial statements.

- Improper posting of Street Construction, Maintenance, & Repair (CMR) and Swimming Pool intergovernmental receipts in the General Fund rather than the Street CMR and Swimming Pool funds.
- Improper posting of sewer and electric CFS receipts in the General, Street CMR, and Bond Retirement funds rather than in the Sewer and Electric funds.
- Improper posting of state & local government highway distributions in the General Fund rather than in the State Highway fund.
- Reclassification of KwH taxes from CFS to Property & Other Local Taxes in the Electric Fund and to properly post inside KwH taxes to the General Fund – see Finding 2012-001.
- Reclassification of auto license fees from Property & Other Local Taxes to Intergovernmental Receipts in the Street CMR and State Highway funds.
- Improper allocation of gasoline excise taxes to the Street CMR and State Highway funds.
- Reclassification of inheritance taxes from Property & Other Local Taxes to Intergovernmental Receipts in the General Fund.
- Reclassification of OWDA/OPWC loan disbursements from Other Financing Uses to Principal Retirement.
- Reclassification of homestead and rollback receipts from property tax receipts to intergovernmental receipts in the General Fund.
- Reclassification of OMEGA JV5 debt disbursements from Contractual Services to Principal Retirement and Interest and Fiscal Charges.

The Village has posted the proposed audit adjustments to their financial statements and accounting records.

We recommend the Village implement additional procedures to provide assurance over the completeness and accuracy of information reported within the financial statements. Such procedures may include additional reviews of the financial statements including the notes to the financial statements by a member of management and an analytical comparison of the current year annual report to the prior year annual report for obvious errors or omissions.

Officials' Response

Effective Jan. 1, 2013, all SLGH taxes, gasoline taxes, and license taxes received through direct deposit from the State of Ohio Auditor's office are distributed 92.5% to Fund #2011 (Streets & Maintenance) and 7.5% to Fund 2021 (State Highway) as directed. Also effective Jan. 1, 2013, all Homestead Rollback Taxes are charged to intergovernmental and split the same as regular property taxes.

VILLAGE OF PROSPECT
MARION 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; ***Explain***
2010-001	Negative fund balance in its Debt Service Fund.	Yes	Fully Corrected
2010-002	Several receipts and expenditures were not posted to accurate classifications.	No	Reissued as Finding 2012-002

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Dave Yost • Auditor of State

VILLAGE OF PROSPECT

MARION 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
MARCH 20, 2014

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