



Dave Yost • Auditor of State

VILLAGE OF CUSTAR
WOOD COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor's Report.....	1
Prepared by Management:	
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - All Governmental Fund Types For the Year Ended December 31, 2016	3
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - Proprietary Fund Type For the Year Ended December 31, 2016	4
Notes to the Financial Statements - For the Year Ended December 31, 2016	5
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - All Governmental Fund Types For the Year Ended December 31, 2015	16
Combined Statement of Receipts, Disbursements, and Changes in Fund Balances (Regulatory Cash Basis) - Proprietary Fund Type For the Year Ended December 31, 2015	17
Notes to the Financial Statements - For the Year Ended December 31, 2015	18
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	29
Schedule of Findings	31
Summary Schedule of Prior Audit Findings (Prepared by Management)	33

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Custer
Wood County
P.O. Box 1
13230 Maple Street
Weston, Ohio 43569

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Custer, Wood County, Ohio (the Village) as of and for the years ended December 31, 2016 and 2015.

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 such 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 opinions.

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 (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

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, 2016 and 2015, and the respective 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 cash balances, receipts and disbursements by fund type, and related notes of the Village of Custar, Wood County, Ohio as of December 31, 2016 and 2015, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2018, 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

January 31, 2018

Village of Custar
Wood County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2016

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$21,350	\$1,065	\$22,415
Intergovernmental	8,167	9,216	17,383
Fines, Licenses and Permits	125		125
Earnings on Investments	81	8	89
<i>Total Cash Receipts</i>	<u>29,723</u>	<u>10,289</u>	<u>40,012</u>
Cash Disbursements			
Current:			
Security of Persons and Property	1,760		1,760
Public Health Services	110		110
Leisure Time Activities	8,404		8,404
Community Environment	597		597
Basic Utility Services	708		708
Transportation		4,458	4,458
General Government	19,678		19,678
<i>Total Cash Disbursements</i>	<u>31,257</u>	<u>4,458</u>	<u>35,715</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(1,534)</u>	<u>5,831</u>	<u>4,297</u>
Other Financing Receipts (Disbursements)			
Other Financing Sources	22		22
Other Financing Uses	(274)		(274)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(252)</u>		<u>(252)</u>
<i>Net Change in Fund Cash Balances</i>	(1,786)	5,831	4,045
<i>Fund Cash Balances, January 1</i>	<u>77,047</u>	<u>59,128</u>	<u>136,175</u>
Fund Cash Balances, December 31			
Restricted		64,959	64,959
Assigned	7,633		7,633
Unassigned	67,628		67,628
<i>Fund Cash Balances, December 31</i>	<u>\$75,261</u>	<u>\$64,959</u>	<u>\$140,220</u>

See accompanying notes to the financial statements

Village of Custar
Wood County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
Proprietary Fund Type
For the Year Ended December 31, 2016

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	<u>\$204,594</u>
Operating Cash Disbursements	
Personal Services	11,846
Employee Fringe Benefits	2,175
Contractual Services	172,681
Supplies and Materials	3,130
Other	<u>133</u>
<i>Total Operating Cash Disbursements</i>	<u>189,965</u>
<i>Operating Income</i>	<u>14,629</u>
Non-Operating Receipts	
Special Assessments	<u>7,253</u>
<i>Net Change in Fund Cash Balances</i>	21,882
<i>Fund Cash Balances, January 1</i>	<u>485,307</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$507,189</u></u>

See accompanying notes to the financial statements

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016

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, Ohio ("the Village"), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village operates an electric utility and maintains local parks. The Village contracts with the Weston EMS to provide their ambulance services.

The Village participates in a jointly governed organization, joint ventures, a public entity risk pool and two long term purchase commitments. Notes 7, 8, 9, & 10 provide additional information for each. These organizations are:

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.

Jointly Governed Organization:

AMP Ohio

Joint Ventures:

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

Long Term Purchase Commitments:

American Municipal Power Generating Station (AMPGS)
Combined Hydroelectric Project

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

B. Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary fund types which are organized on a fund type basis.

C. Basis of Accounting

These financial statements follow 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). 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 (when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

D. 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.

E. 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/or 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 Fund:

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

3. 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 electricity service costs.

F. Budgetary Process

The Ohio Revised Code requires that a budget for each fund be established annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control. Furthermore, the appropriations may not exceed the amount of estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. 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 approve estimated resources.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

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 2016 budgetary activity appears in Note 3.

G. 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 grantors, creditors (such as through debt covenants), contributors, or laws/regulations of other governments; or 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 resolution is amended. 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.

H. Capital Assets

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

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

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:

	2016
Demand deposits	\$481,510
Certificates of deposit	165,899
Total deposits	\$647,409

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

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$26,901	\$29,745	\$2,844
Special Revenue	9,850	10,289	439
Enterprise	203,300	211,847	8,547
Total	\$240,051	\$251,881	\$11,830

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$40,657	\$34,863	\$5,794
Special Revenue	16,260	6,407	9,853
Enterprise	222,147	224,061	(1,914)
Total	\$279,064	\$265,331	\$13,733

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.

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

Village of Custer
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

5. Retirement System

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 post-retirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2016, 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, 2016.

6. Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefit.

7. Risk Management

Risk Pool Membership

The Village belongs to the Ohio Plan Risk Management (OPRM) (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 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. Until November 1, 2016, the OPRM retained 47% 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, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

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 reported the following assets, liabilities and equity at December 31, 2016:

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

	<u>2016</u>
Assets	\$14,765,712
Liabilities	<u>(9,531,506)</u>
Members' Equity	<u>\$ 5,234,206</u>

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

8. Long Term Purchase Commitments

A. American Municipal Power Generating Station (AMPGS)

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's project share was 110 kilowatts (kW) of a total 771,281 kW, giving the Village a 0.01 percent project share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed *impaired* and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share of the impaired costs at March 31, 2014 was \$19,213. The Village received a credit of \$4,975 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU, leaving an estimated net impaired cost balance of \$14,238. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact, either positively or negatively, the Village's net impaired cost balance. These amounts will be recorded as they become estimable.

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014 the Village has made payments of \$14,238 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$192 and interest expense incurred on AMP's line-of-credit of \$39, resulting in a net impaired cost estimate at December 31, 2016 of \$231. The Village has elected to finance this amount through lump sum payments. The Village does have a potential PHFU Liability of \$5,120 resulting in a net total potential liability of \$5,351, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the Village's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

B. Combined Hydroelectric Project

AMP recently completed construction of three hydroelectric facilities, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the "Combined Hydroelectric Project"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Project facilities involved 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 Project, including associated transmission facilities, are operated by AMP. AMP holds the licenses from FERC for the Combined Hydroelectric Project.

The Cannelton Hydro facility, 88MW, in operation as of June 7, 2016, is located on the Kentucky shore of the Cannelton Locks and Dam on federal land. AMP has a FERC license for the project that expires May 31, 2041. The hydro project diverts water from the locks and dam through bulb turbines, which have a horizontal shaft and Kaplan-type turbines. The site includes an intake channel, a reinforced concrete powerhouse (to house turbine and 3 generator units), and a tailrace or downstream channel.

The Willow Island Hydro facility, 44MW, in operation as of February 4, 2016, diverts water from the existing Willow Island Locks and Dam through bulb turbines. The FERC license for the Willow Project expires August 31, 2030. Average gross annual output is 279 million kWh. The powerhouse houses two horizontal 29.3 MW bulb type turbines and generating units.

The Smithland Hydro facility, 76MW, which will be in operation as of September 1, 2017, is located 62.5 miles upstream of the confluence of the Ohio and Mississippi Rivers. The Smithland project has a FERC license that expires May 31, 2038. The powerhouse houses three horizontal 29.3 MW bulb type turbines and generating units. Average gross annual output is 379 million kWh.

To provide financing for the Combined Hydroelectric Project, in 2009 and 2010 AMP issued in seven series \$2,045,425,000 of its Combined Hydroelectric Project 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). 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.

In addition, AMP issued the Combined Hydro Project Revenue Bonds, Series 2016A (Green Bonds) (the "Series 2016A Bonds") for \$209,530,000 on October 6, 2016. The bonds were used to finance final completion costs and also reimbursement to the AMP credit line, which provided interim financing for costs related to construction, fund a deposit to the Parity Common Reserve Account, deposit to Escrow Account and pay the cost of issuance of the Series 2016A. The purpose of the "Green bonds" label is to allow investors to invest in an environmentally beneficial project.

As of December 31, 2016 the total outstanding Hydro Project debt on AMP's books is approximately \$2,175,339,706. The Village of Custar has executed a take-or-pay power sales contract with AMP for 100 kW or 0.05% of capacity and associated energy from the Combined hydro facilities.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

9. Joint Ventures

A. 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 0.0029833%; participation is shared 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 (as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser) jointly undertook 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 the remaining 4.569MW are held in reserve. Upon 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, 2016, the outstanding debt was \$4,142,633. The Village's net investment in OMEGA JV2 was \$397 at December 31, 2016. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

The 36 participating subdivisions and their respective ownership shares at December 31, 2016 were as follows:

<u>Municipality</u>	<u>% Ownership</u>	<u>Kw Entitlement</u>
• Hamilton	23.87%	32,000
• Bowling Green	14.32%	19,198
• Niles	11.49%	15,400
• Cuyahoga Falls	7.46%	10,000
• Wadsworth	5.81%	7,784
• Painesville	5.22%	7,000
• Dover	5.22%	7,000
• Galion	4.29%	5,753
• Amherst	3.73%	5,000
• St. Mary's	2.98%	4,000
• Montpelier	2.98%	4,000

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

• Shelby	1.89%	2,536
• Versailles	1.24%	1,660
• Edgerton	1.09%	1,460
• Yellow Springs	1.05%	1,408
• Oberlin	0.91%	1,217
• Pioneer	0.86%	1,158
• Seville	0.79%	1,066
• Grafton	0.79%	1,056
• Brewster	0.75%	1,000
• Monroeville	0.57%	764
• Milan	0.55%	737
• Oak Harbor	0.55%	737
• Elmore	0.27%	364
• Jackson Center	0.22%	300
• Napoleon	0.20%	264
• Lodi	0.16%	218
• Genoa	0.15%	199
• Pemberville	0.15%	197
• Lucas	0.12%	161
• South Vienna	0.09%	123
• Bradner	0.09%	119
• Woodville	0.06%	81
• Haskins	0.05%	73
• Arcanum	0.03%	44
• Custar	<u>0.00%</u>	<u>4</u>
	100.0%	134,081

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

The Village of Custar is a Financing Participant with an ownership percentage of 0.06%; participation is shared with 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 (the "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. Each participant also has an obligation to pay its share of debt service on the Beneficial Interest Certificates (the "Certificates") from the revenues of its electric system, subject only to the prior payment of the 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.

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.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

Upon 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, 2016 Custar had met its debt coverage obligation.

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

OMEGA JV5 is managed by AMP, 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 (hereinafter referred to as "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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The Village's net investment to date in OMEGA JV5 was \$1,793 at December 31, 2015. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

10. Jointly Governed Organization

AMP Ohio

The Village is a member of AMP Ohio, which is a jointly governed organization between 83 municipalities throughout Ohio, two municipalities in West Virginia, twenty-nine municipalities in Pennsylvania, six municipalities in Michigan, five municipalities in Virginia, four municipalities in Kentucky, one each in Indiana and Maryland, and one joint action agency in Delaware. The purpose of AMP Ohio is to provide electric capacity and energy, and to furnish other services to its members.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2016
(Continued)

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 \$153,762 for 2015 to AMP Ohio.

11. AMP Revenue Coverage

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 9. 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:

	<u>2016</u>
Total Fund Cash Balance	\$499,817
Total Long-Term Debt	\$46,235
Condensed Operating Information:	
Operating Receipts	
Charges for Services	204,594
Operating Expenses	
Personal Services	11,846
Employee Fringe Benefits	2,175
Contractual Services	172,681
Supplies and Materials	3,130
Other	133
Total Operating Expenses	<u>189,965</u>
Operating Income	14,629
Nonoperating Receipts	
Special Assessments	<u>7,253</u>
Change in Fund Cash Balance	21,882
Beginning Fund Cash Balance	<u>477,935</u>
Ending Fund Cash Balance	<u><u>\$499,817</u></u>
Condensed Cash Flows Information:	
Net Cash Provided by:	
Operating Activities	\$14,629
Noncapital Financing Activities	
Special Assessments	7,253
Net Increase	21,882
Beginning Fund Cash Balance	<u>477,935</u>
Ending Fund Cash Balance	<u><u>\$499,817</u></u>

Village of Custar
Wood County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2015

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$26,004	\$981	\$26,985
Intergovernmental	11,803	9,013	20,816
Fines, Licenses and Permits	90		90
Earnings on Investments	1,743	220	1,963
<i>Total Cash Receipts</i>	<u>39,640</u>	<u>10,214</u>	<u>49,854</u>
Cash Disbursements			
Current:			
Security of Persons and Property	920		920
Leisure Time Activities	6,709		6,709
Community Environment	334		334
Transportation		11,570	11,570
General Government	18,056		18,056
<i>Total Cash Disbursements</i>	<u>26,019</u>	<u>11,570</u>	<u>37,589</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>13,621</u>	<u>(1,356)</u>	<u>12,265</u>
Other Financing Disbursements			
Other Financing Uses	(276)		(276)
<i>Net Change in Fund Cash Balances</i>	13,345	(1,356)	11,989
<i>Fund Cash Balances, January 1</i>	<u>63,702</u>	<u>60,484</u>	<u>124,186</u>
Fund Cash Balances, December 31			
Restricted		59,128	59,128
Assigned	13,756		13,756
Unassigned	63,291		63,291
<i>Fund Cash Balances, December 31</i>	<u>\$77,047</u>	<u>\$59,128</u>	<u>\$136,175</u>

See accompanying notes to the financial statements

Village of Custar
Wood County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
Proprietary Fund Type
For the Year Ended December 31, 2015

	<u>Enterprise</u>
Operating Cash Receipts	
Charges for Services	<u>\$219,399</u>
Operating Cash Disbursements	
Personal Services	13,126
Employee Fringe Benefits	2,191
Contractual Services	162,216
Supplies and Materials	25,110
Other	<u>400</u>
<i>Total Operating Cash Disbursements</i>	<u>203,043</u>
<i>Operating Income</i>	<u>16,356</u>
Non-Operating Receipts	
Special Assessments	<u>26,296</u>
<i>Net Change in Fund Cash Balances</i>	42,652
<i>Fund Cash Balances, January 1</i>	<u>442,655</u>
<i>Fund Cash Balances, December 31</i>	<u><u>\$485,307</u></u>

See accompanying notes to the financial statements

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015

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, Ohio ("the Village"), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village operates an electric utility and maintains local parks. The Village contracts with the Weston EMS to provide their ambulance services.

The Village participates in a jointly governed organization, joint ventures, a public entity risk pool and a long term purchase commitment. Notes 7, 8, 9, & 10 provide additional information for each. These organizations are:

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.

Jointly Governed Organization:

AMP Ohio

Joint Ventures:

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

Long Term Purchase Commitment:

American Municipal Power Generating Station (AMPGS)

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

B. Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all proprietary fund types which are organized on a fund type basis.

C. Basis of Accounting

These financial statements follow 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). 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 (when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

D. Deposits and Investments

The Village's accounting basis recognizes 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.

E. 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/or 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 monies for constructing, maintaining, and repairing Village streets.

State Highway Fund - This fund receives a portion of the gasoline and motor vehicle tax revenues for costs related to the maintenance of state highways, namely SR 281, which runs through the Village.

3. 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 electricity service costs.

F. Budgetary Process

The Ohio Revised Code requires that a budget for each fund be established annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control. Furthermore, the appropriations may not exceed the amount of estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Unencumbered appropriations lapse at year end.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must 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 2015 budgetary activity appears in Note 3.

G. 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 grantors, creditors (such as through debt covenants), contributors, or laws/regulations of other governments; or 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 resolution is amended. 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.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

H. Capital Assets

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, 2015 was as follows:

	2015
Demand deposits	\$455,583
Certificates of deposit	165,899
Total deposits	\$621,482

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

3. Budgetary Activity

Budgetary activity for the year ending December 31, 2015 follows:

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$26,039	\$39,640	\$13,601
Special Revenue	9,919	10,214	295
Enterprise	203,300	245,695	42,395
Total	\$239,258	\$295,549	\$56,291

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$38,219	\$28,767	\$9,452
Special Revenue	31,906	14,810	17,096
Enterprise	275,639	206,999	68,640
Total	\$345,764	\$250,576	\$95,188

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.

Village of Custer
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

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 plan. The Ohio Revised Code prescribes this plan's benefits, which include post-retirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2015, 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, 2015.

6. Postemployment Benefits

OPERS offers cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefit.

7. Risk Management

Risk Pool Management

The Village belongs to the Ohio Plan Risk Management (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 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 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. Effective November 1, 2012 (and through October 2014), the plan increased its retention to 50% of the first \$250,000 casualty treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 and 783 members as of December 31, 2015 and 2014, 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.

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Assets	\$14,643,667	\$14,830,185
Liabilities	(9,112,030)	(8,942,504)
Members' Equity	<u>\$5,531,637</u>	<u>\$5,887,681</u>

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

8. Long Term Purchase Commitment

American Municipal Power Generating Station (AMPGS)

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project was intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's project share was 110 kilowatts (kW) of a total 771,281 kW, giving the Village a 0.01 percent project share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. All project costs incurred prior to the cancellation and related to the cancellation were therefore deemed *impaired* and participants were obligated to pay those incurred costs. In prior years, payment of these costs was not required due to AMP's pursuit of legal action to collect them from Bechtel. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share of the impaired costs at March 31, 2014 was \$19,213. The Village received a credit of \$4,975 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future Use (PHFU), leaving an estimated net impaired cost balance of \$14,238. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact, either positively or negatively, the Village's net impaired cost balance. These amounts will be recorded as they become estimable.

Since March 31, 2014 the Village has made payments of \$14,238 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$192 and interest expense incurred on AMP's line-of-credit of \$39, resulting in a net impaired cost estimate at December 31, 2015 of \$231. The Village has elected to finance this amount through lump sum payments. The Village does have a potential PHFU Liability of \$5,120 resulting in a net total potential liability of \$5,351, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the Village's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

9. Joint Ventures

A. 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 0.0029833%; participation is shared with thirty-five other subdivisions

Village of Custer
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

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 (as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser) jointly undertook 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 the remaining 4.569MW are held in reserve. Upon 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, 2016, the outstanding debt was \$4,142,633. The Village's net investment in OMEGA JV2 was \$397 at December 31, 2016. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

The 36 participating subdivisions and their respective ownership shares at December 31, 2016 were as follows:

<u>Municipality</u>	<u>% Ownership</u>	<u>Kw Entitlement</u>
• Hamilton	23.87%	32,000
• Bowling Green	14.32%	19,198
• Niles	11.49%	15,400
• Cuyahoga Falls	7.46%	10,000
• Wadsworth	5.81%	7,784
• Painesville	5.22%	7,000
• Dover	5.22%	7,000
• Galion	4.29%	5,753
• Amherst	3.73%	5,000
• St. Mary's	2.98%	4,000
• Montpelier	2.98%	4,000
• Shelby	1.89%	2,536
• Versailles	1.24%	1,660
• Edgerton	1.09%	1,460
• Yellow Springs	1.05%	1,408
• Oberlin	0.91%	1,217
• Pioneer	0.86%	1,158
• Seville	0.79%	1,066

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

• Grafton	0.79%	1,056
• Brewster	0.75%	1,000
• Monroeville	0.57%	764
• Milan	0.55%	737
• Oak Harbor	0.55%	737
• Elmore	0.27%	364
• Jackson Center	0.22%	300
• Napoleon	0.20%	264
• Lodi	0.16%	218
• Genoa	0.15%	199
• Pemberville	0.15%	197
• Lucas	0.12%	161
• South Vienna	0.09%	123
• Bradner	0.09%	119
• Woodville	0.06%	81
• Haskins	0.05%	73
• Arcanum	0.03%	44
• Custar	<u>0.00%</u>	<u>4</u>
	100.0%	134,081

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

The Village of Custar is a Financing Participant with an ownership percentage of 0.06%; participation is shared with 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 (the "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. Each participant also has an obligation to pay its share of debt service on the Beneficial Interest Certificates (the "Certificates") from the revenues of its electric system, subject only to the prior payment of the 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.

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.

Upon 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, 2016 Custar had met its debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain

Village of Custer
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

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 (hereinafter referred to as "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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The Village's net investment to date in OMEGA JV5 was \$1,793 at December 31, 2015. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

10. Jointly Governed Organization

AMP Ohio

The Village is a member of AMP Ohio, which is a jointly governed organization between 83 municipalities throughout Ohio, two municipalities in West Virginia, twenty-nine municipalities in Pennsylvania, six municipalities in Michigan, five municipalities in Virginia, four municipalities in Kentucky, one each in Indiana and Maryland, and one joint action agency in Delaware. 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 \$153,762 for 2015 to AMP Ohio.

11. AMP Revenue Coverage

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric

Village of Custar
Wood County

Notes to the Financial Statements
For the Year Ended December 31, 2015
(Continued)

Generation Agency (OMEGA) Joint Ventures as described in Note 9. 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:

	2015
Total Fund Cash Balance	\$477,935
Total Long-Term Debt	\$51,387
 Condensed Operating Information:	
Operating Receipts	
Charges for Services	218,799
Operating Expenses	
Personal Services	13,126
Employee Fringe Benefits	2,191
Contractual Services	162,216
Supplies and Materials	25,110
Other	400
Total Operating Expenses	203,043
Operating Income	15,756
Nonoperating Receipts	
Special Assessments	26,296
Change in Fund Cash Balance	42,052
Beginning Fund Cash Balance	435,883
Ending Fund Cash Balance	\$477,935
 Condensed Cash Flows Information:	
Net Cash Provided by:	
Operating Activities	\$15,756
Noncapital Financing Activities	
Special Assessments	26,296
Net Increase	42,052
Beginning Fund Cash Balance	435,883
Ending Fund Cash Balance	\$477,935

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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
P.O. Box 1
13230 Maple Street
Weston, Ohio 43569

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 cash balances, receipts, and disbursements by fund type of the Village of Custar, Wood County, Ohio, (the Village) as of and for the year ended December 31, 2016 and 2015, and the related notes to the financial statements and have issued our report thereon dated January 31, 2018, wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) 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.

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 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2016-001 through 2016-003 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State

Columbus, Ohio

January 31, 2018

**VILLAGE OF CUSTAR
WOOD COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2016 AND 2015**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2016-001

Material Weakness - Financial Statement Presentation

Accurate financial reporting is the responsibility of the Fiscal Officer and is essential to ensure the information provided to readers of the financial statements accurately reflects the Village's activity. Errors were noted in the financial statements, resulting in the following audit adjustments:

- Assigned fund balance related to outstanding encumbrances and subsequent year appropriations exceeding estimated resources was classified as Unassigned within the General Fund (2016 - \$7,633) (2015 - \$13,756);
- Homestead and rollback receipts were recorded as property taxes rather than intergovernmental within the General Fund (2016 - \$1,677) (2015 - \$1,413);
- Intergovernmental receipts of \$412 within the General Fund in 2015 were recorded as transfers in;
- Charges for services of \$109 within the Electric Fund in 2015 were recorded as transfers in;
- Special assessment receipts of \$26,296 within the Electric Fund in 2015 were recorded as charges for services;
- Kilowatt hour tax receipts of \$10,134 generated by the end users within the Village for 2015 were not recorded until 2016.

These errors were a result of inadequate policies and procedures in reviewing the financial statements and accounting records throughout the audit period. The accompanying financial statements have been adjusted to correct these errors.

To help ensure the Village's financial statements are complete and accurate, the Village should adopt procedures, including a final review of the annual report by Council to identify and correct errors, omissions, and misclassifications. We also recommend the Fiscal Officer review AOS Bulletin 2011-004 to ensure the Village's fund balances are reported in accordance with GASB 54.

FINDING NUMBER 2016-002

Material Weakness - Bank Reconciliations

Bank reconciliations should be performed on a monthly basis with any variances investigated, explained, and adjusted if necessary. During the audit period, the Fiscal Officer prepared monthly bank reconciliations. However, there were variances most months which were identified as bank errors.

On the December 31, 2016 and December 31, 2015 reconciliations, most of these errors were posting errors and not bank errors. Posting errors, which were mostly related to the Board of Public Affairs bank account, resulted in audit adjustments of \$4,070 in 2016 and \$16,808 in 2015.

When reconciliation variances are listed as bank errors rather than determining the exact cause, it could lead to accounting records that do not show the true financial status of the Village and possibly lead to misappropriation of assets.

These errors were a result of inadequate policies and procedures in completing and reviewing bank reconciliations and the related variances each month. Also, while Council has been approving the reconciliations with these variances, there was no evidence they had substantiated the reconciling items.

We recommend the Fiscal Officer and Council determine the exact cause of any reconciliation variances and record adjustments as necessary. In addition, Council should periodically substantiate the accuracy of reconciliations submitted to them.

FINDING NUMBER 2016-003

Material Weakness - Appropriations and Estimated Revenues

Estimated receipts and appropriations budgeted by Council and approved by the Budget Commission should agree to the estimated receipts and appropriations posted to the Uniform Accounting Network (UAN) accounting system and used in the Village's budget vs. actual footnote. In addition, actual disbursements should include amounts encumbered at year end.

Final budgeted receipts input into the accounting system for the General Fund and Electric Fund did not agree to final approved budgets by \$3,149 and \$54,300, respectively in 2015.

We also noted final budgeted expenditures input into the accounting system and budgetary footnote did not agree to the final appropriation resolution for the following:

- 2015 General Fund - \$1,689;
- 2015 Special Revenue - (\$2,114);
- 2015 Enterprise - \$13,880;
- 2016 General Fund - (\$2,136);
- 2016 Special Revenue - \$3,240;
- 2016 Enterprise - \$3,956;

Additionally, the following year end encumbrances were not included with actual disbursements in the Village's budget vs. actual footnotes:

- 2015 General Fund - \$2,472;
- 2015 Special Revenue - \$3,240;
- 2015 Enterprise - \$3,956;
- 2016 General Fund - \$3,332;
- 2016 Special Revenue - \$1,949;
- 2016 Enterprise - \$34,096;

The budget vs actual footnotes have been updated to include the above amounts.

These errors were a result of inadequate policies and procedures in reviewing budgetary information and the related budgetary footnotes. Using inaccurate information could lead to Council making misinformed decisions. We recommend the Fiscal Officer reconcile estimated resources and appropriations in the UAN accounting system to the official certificate of estimated resources and final appropriation resolution certified by the Budget Commission and any subsequent amendments or adjustments approved by the Board and the Budget Commission in order to ensure their accuracy. In addition, we recommend accurate amounts be input into the budget vs. actual footnote at year end, including encumbrances.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2016 AND 2015**

Finding Number	Finding Summary	Status	Additional Information
2014-001	Finding was first issued in the 2011-2012 audit. Material weakness over financial reporting due to material audit adjustments.	Not corrected and repeated as Finding 2016-001 in this report.	This finding reoccurred due to inadequate policies and procedures in reviewing the financial statements for financial reporting. The Village is implementing procedures to correct these errors for the future.
2014-002	Material noncompliance over Ohio Rev. Code §5705.41(B) due to budgetary expenditures exceeding appropriations.	Partially corrected and repeated in Management Letter.	Budgetary expenditures only exceeded appropriations for one fund in 2016 and none in 2015. Additionally, the amount was not material. This error was a result of inadequate policies and procedures in reviewing budget vs. actual information. The Village is implementing procedures to correct these errors for the future.
2014-003	Material weakness over fund balance classification due to adjustments to the financial statements in accordance with GASB 54.	Not corrected and repeated as part of Finding 2016-001 in this report.	This finding reoccurred due to inadequate policies and procedures in reviewing the financial statements for compliance with GASB 54. The Village is implementing procedures to correct these errors for the future.

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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
FEBRUARY 15, 2018