



**Auditor of State  
Betty Montgomery**



VILLAGE OF CUSTAR  
WOOD COUNTY

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**Auditor of State  
Betty Montgomery**

Village of Custar  
Wood County  
PO Box 137  
Custar, Ohio 43511-0137

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005, interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

A handwritten signature in black ink that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

November 9, 2006

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Village of Custar  
Wood County  
PO Box 137  
Custar, Ohio 43511-0137

To the Village Council:

We have audited the accompanying financial statements of Village of Custar, Wood County, (the Village) as of and for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the years ended December 31, 2005 and 2004. Instead of the combined funds the accompanying financial statements present for 2005 and 2004, the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2005 and 2004.

While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2005 and 2004, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2005 and 2004, or its changes in financial position or cash flows of its proprietary funds for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Village of Custar, Wood County, as of December 31, 2005 and 2004, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the years ended December 31, 2005 and 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2006, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



**Betty Montgomery**  
Auditor of State

November 9, 2006

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

|  | <u>Governmental Fund Types</u> |                            |                             | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|--|--------------------------------|----------------------------|-----------------------------|---|
|  | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> |   |
| <b>Cash Receipts:</b>  |                                |                            |                             |   |
| Property Tax and Other Local Taxes   | \$21,901                       |                            |                             | \$21,901                                |
| Intergovernmental Receipts   | 5,636                          | \$10,369                   | \$12,000                    | 28,005                                  |
| Charges for Services   | 208                            |                            |                             | 208                                     |
| Fines, Licenses, and Permits   | 135                            |                            |                             | 135                                     |
| Earnings on Investments  | 1,155                          | 242                        |                             | 1,397                                   |
| Miscellaneous  | 170                            |                            |                             | 170                                     |
|  | <u>29,205</u>                  | <u>10,611</u>              | <u>12,000</u>               | <u>51,816</u>                           |
| <b>Total Cash Receipts</b>   |                                |                            |                             |   |
| <b>Cash Disbursements:</b>   |                                |                            |                             |   |
| Current:   |                                |                            |                             |   |
| Security of Persons and Property   | 1,461                          |                            |                             | 1,461                                   |
| Public Health Services   | 395                            |                            |                             | 395                                     |
| Leisure Time Activities  | 5,557                          |                            |                             | 5,557                                   |
| Community Environment  | 280                            |                            |                             | 280                                     |
| Transportation   |                                | 1,710                      |                             | 1,710                                   |
| General Government   | 24,498                         | 309                        |                             | 24,807                                  |
| Capital Outlay   | 735                            |                            |                             | 735                                     |
|  | <u>32,926</u>                  | <u>2,019</u>               | <u>12,000</u>               | <u>34,945</u>                           |
| <b>Total Cash Disbursements</b>  |                                |                            |                             |   |
| Total Cash Receipts Over/(Under) Cash Disbursements  | <u>(3,721)</u>                 | <u>8,592</u>               | <u>12,000</u>               | <u>16,871</u>                           |
| <b>Other Financing Receipts and (Disbursements):</b>   |                                |                            |                             |   |
| Transfers-In   | 18,018                         |                            |                             | 18,018                                  |
| Transfers-Out  | (7,468)                        | (18,018)                   |                             | (25,486)                                |
|  | <u>10,550</u>                  | <u>(18,018)</u>            | <u>12,000</u>               | <u>(7,468)</u>                          |
| <b>Total Other Financing Receipts/(Disbursements)</b>  |                                |                            |                             |   |
| Excess of Cash Receipts and Other Financing<br>Receipts Over/(Under) Cash Disbursements<br>and Other Financing Disbursements | 6,829                          | (9,426)                    | 12,000                      | 9,403                                   |
| Fund Cash Balances, January 1  | 17,003                         | 46,859                     |                             | 63,862                                  |
| <b>Fund Cash Balances, December 31</b>   | <u><b>\$23,832</b></u>         | <u><b>\$37,433</b></u>     | <u><b>\$12,000</b></u>      | <u><b>\$73,265</b></u>                  |
| Reserves for Encumbrances, December 31   | <u>\$15,688</u>                | <u>\$4</u>                 |                             | <u>\$15,692</u>                         |

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

VILLAGE OF CUSTAR  
WOOD COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

|   | <u>Enterprise</u>              |
|---|--------------------------------|
| <b>Operating Cash Receipts:</b>           |                                |
| Charges for Services                      | <u>\$202,748</u>               |
| <b>Operating Cash Disbursements:</b>      |                                |
| Personal Services                         | 3,620                          |
| Fringe Benefits                           | 1,886                          |
| Contractual Services                      | 165,676                        |
| Supplies and Materials                    | 27,198                         |
| Other                                     | <u>837</u>                     |
| Total Operating Cash Disbursements        | <u>199,217</u>                 |
| Operating Income                          | <u>3,531</u>                   |
| Transfers-In                              | <u>7,468</u>                   |
| Net Cash Receipts Over Cash Disbursements | 10,999                         |
| Fund Cash Balances, January 1             | <u>201,096</u>                 |
| <b>Fund Cash Balances, December 31</b>    | <b><u><u>\$212,095</u></u></b> |
| Reserve for Encumbrances, December 31     | <u><u>\$15,283</u></u>         |

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

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2004**

|   | <u>Governmental Fund Types</u> |                            |                             | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|---|--------------------------------|----------------------------|-----------------------------|---|
|   | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Capital<br/>Projects</u> |   |
| <b>Cash Receipts:</b>   |                                |                            |                             |   |
| Property Tax and Other Local Taxes  | \$21,230                       |                            |                             | \$21,230                                |
| Intergovernmental Receipts  | 5,785                          | \$10,766                   | \$8,000                     | 24,551                                  |
| Fines, Licenses, and Permits  | 45                             |                            |                             | 45                                      |
| Earnings on Investments   | 2,615                          | 178                        |                             | 2,793                                   |
| Miscellaneous   | 288                            |                            |                             | 288                                     |
|   |                                |                            |                             |   |
| Total Cash Receipts   | <u>29,963</u>                  | <u>10,944</u>              | <u>8,000</u>                | <u>48,907</u>                           |
| <b>Cash Disbursements:</b>  |                                |                            |                             |   |
| Current:  |                                |                            |                             |   |
| Security of Persons and Property  | 1,226                          |                            |                             | 1,226                                   |
| Public Health Services  | 364                            |                            |                             | 364                                     |
| Leisure Time Activities   | 1,207                          |                            |                             | 1,207                                   |
| Community Environment   | 260                            |                            |                             | 260                                     |
| Basic Utility Services  |                                |                            | 8,000                       | 8,000                                   |
| Transportation  |                                | 1,250                      |                             | 1,250                                   |
| General Government  | 25,418                         | 300                        |                             | 25,718                                  |
| Capital Outlay  | 650                            |                            | 20,000                      | 20,650                                  |
|   |                                |                            |                             |   |
| Total Cash Disbursements  | <u>29,125</u>                  | <u>1,550</u>               | <u>28,000</u>               | <u>58,675</u>                           |
|   |                                |                            |                             |   |
| Total Cash Receipts Over Cash Disbursements   | <u>838</u>                     | <u>9,394</u>               |                             | <u>(9,768)</u>                          |
| <b>Other Financing Receipts/(Disbursements):</b>  |                                |                            |                             |   |
| Sale of Notes   |                                |                            | 20,000                      | 20,000                                  |
| Transfers-Out   | (7,985)                        |                            |                             | (7,985)                                 |
|   |                                |                            |                             |   |
| Total Other Financing Receipts/(Disbursements)  | <u>(7,985)</u>                 |                            | <u>\$20,000</u>             | <u>12,015</u>                           |
|   |                                |                            |                             |   |
| Excess of Cash Receipts and Other Financing<br>Receipts Over/(Under) Cash Disbursements<br>and Other Financing Cash (Disbursements) | (7,147)                        | 9,394                      |                             | 2,247                                   |
|   |                                |                            |                             |   |
| Fund Cash Balances, January 1   | 24,150                         | 37,465                     |                             | 61,615                                  |
|   |                                |                            |                             |   |
| <b>Fund Cash Balances, December 31</b>  | <b><u>\$17,003</u></b>         | <b><u>\$46,859</u></b>     |                             | <b><u>\$63,862</u></b>                  |

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

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN FUND CASH BALANCES - ENTERPRISE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2004**

|  | <b>Enterprise</b> |
|--|-------------------|
| <b>Operating Cash Receipts:</b>        |                   |
| Charges for Services                   | \$176,225         |
| <b>Operating Cash Disbursements:</b>   |                   |
| Personal Services                      | 3,620             |
| Fringe Benefits                        | 499               |
| Contractual Services                   | 115,908           |
| Supplies and Materials                 | 36,633            |
| Other                                  | 1,409             |
| Total Operating Cash Disbursements     | 158,069           |
| Operating Income                       | 18,156            |
| Transfers-In                           | 7,985             |
| Net Cash Receipts Over Disbursements   | 26,141            |
| Fund Cash Balances, January 1          | 174,955           |
| <b>Fund Cash Balances, December 31</b> | <b>\$201,096</b>  |
| Reserve for Encumbrances, December 31  | \$12,211          |

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

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Custar, Wood County, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides electric utilities and a park. The Village contracts with the Village of Weston to provide ambulance services.

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

**B. Basis of Accounting**

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

These statements adequately disclose material matters the Auditor of State prescribes.

**C. Cash**

The Village values certificates of deposit at cost.

**D. Fund Accounting**

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

**1. General Fund**

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

**2. Special Revenue Fund**

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

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

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**3. Capital Project Fund**

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise or trust funds). The Village had the following significant Capital Project fund:

Water and Sewer Improvement Fund - This fund receives proceeds of OPWC, CDBG, and VCIF loans and grants. The proceeds are being used for a water and sewer project.

**4. Enterprise Fund**

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 only had one Enterprise Fund:

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

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. 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 commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2005 and 2004 budgetary activity appears in Note 3.

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)**

**F. Property, Plant, and Equipment**

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

**2. EQUITY IN POOLED CASH**

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

|                         | 2005      | 2004      |
|-------------------------|-----------|-----------|
| Demand deposits         | \$200,195 | \$191,431 |
| Certificates of deposit | 85,165    | 73,527    |
| Total deposits          | \$285,360 | \$264,958 |

Deposits are insured by the Federal Depository Insurance Corporation; collateralized by securities specifically pledged by the financial institution to the Village or collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2005 and 2004 follows:

| 2005 Budgeted vs. Actual Receipts |                      |                    |           |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance  |
| General                           |                      | \$47,223           | \$47,223  |
| Special Revenue                   |                      | 10,611             | 10,611    |
| Capital Projects                  |                      | 12,000             | 12,000    |
| Enterprise                        |                      | 210,216            | 210,216   |
| Total                             |                      | \$280,050          | \$280,050 |

| 2005 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |             |
|---|----------------------------|---------------------------|-------------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance    |
| General   |                            | \$56,082                  | (\$56,082)  |
| Special Revenue                                       |                            | 20,041                    | (20,041)    |
| Enterprise  |                            | 214,500                   | (214,500)   |
| Total   |                            | \$290,623                 | (\$290,623) |

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**3. BUDGETARY ACTIVITY – (Continued)**

| 2004 Budgeted vs. Actual Receipts |                      |                    |           |
|-----------------------------------|----------------------|--------------------|-----------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance  |
| General                           |                      | \$29,963           | \$29,963  |
| Special Revenue                   |                      | 10,944             | 10,944    |
| Capital Projects                  |                      | 28,000             | 28,000    |
| Enterprise                        |                      | 184,210            | 184,210   |
| Total                             |                      | \$253,117          | \$253,117 |

| 2004 Budgeted vs. Actual Budgetary Basis Expenditures |                            |                           |             |
|---|----------------------------|---------------------------|-------------|
| Fund Type   | Appropriation<br>Authority | Budgetary<br>Expenditures | Variance    |
| General   |                            | \$37,110                  | (\$37,110)  |
| Special Revenue                                       |                            | 1,550                     | (1,550)     |
| Capital Projects                                      |                            | 28,000                    | (28,000)    |
| Enterprise  |                            | 170,280                   | (170,280)   |
| Total   |                            | \$236,940                 | (\$236,940) |

**4. COMPLIANCE**

For 2005 and 2004, the Village did not certify to the County Auditor the Total Amounts Available for Expenditure and Balances for all funds at the beginning of each year. In addition, for both years the approved appropriations were not sent to the County Auditor for certification that appropriations were within total estimated resources. As a result there were no approved estimated revenues or appropriations available to spend. This resulted in expenditures exceeding appropriations.

The Village did not deposit the portion of tax on the kilowatt hours distributed to the end users located within the boundaries of the municipal corporation in the General Fund for 2005 and 2004. The Ohio Revised Code requires this deposit. The financial statements were adjusted to reflect this deposit properly.

**5. PROPERTY TAX**

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

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**5. PROPERTY TAX – (Continued)**

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

**6. DEBT**

Debt outstanding at December 31, 2005, was as follows:

|                          | Principal | Interest Rate |
|--------------------------|-----------|---------------|
| General Obligation Notes | \$20,000  | 2.2%          |

The Village issued general obligation notes to finance the planning costs of the sewer improvement project, through the Ohio Water Development Authorities Village Capital Improvement Fund (VCIF). The Village agrees to repay this note as a general tax obligation.

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

| Year ending December 31: | VCIF Note |
|--------------------------|-----------|
| 2006                     | \$2,000   |
| 2007                     | 2,000     |
| 2008                     | 2,000     |
| 2009                     | 2,308     |
| 2010                     | 2,264     |
| 2011 – 2015              | 10,660    |
| Total                    | \$21,232  |

**7. 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 the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2005 and 2004, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2005.

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**8. RISK MANAGEMENT**

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

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

The Government 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. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

**Casualty Coverage**

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides excess of funds available coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

**Property Coverage**

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence. APEEP's Guarantee Fund was responsible for losses and loss adjustment expenses exceeding operating contributions.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**8. RISK MANAGEMENT – (Continued)**

Members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contribution, minus the subsequent year's premium. Also upon withdrawal, payments for all property and casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

**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, 2005 and 2004.

|                   |              |              |
|-------------------|--------------|--------------|
| Casualty Coverage | 2005         | 2004         |
| Assets            | \$29,719,675 | \$27,437,169 |
| Liabilities       | (15,994,168) | (13,880,038) |
| Retained earnings | \$13,725,507 | \$13,557,131 |
|                   |              |              |
| Property Coverage | 2005         | 2004         |
| Assets            | \$4,443,332  | \$3,648,272  |
| Liabilities       | (1,068,245)  | (540,073)    |
| Retained earnings | \$3,375,087  | \$3,108,199  |

The Casualty Coverage assets and retained earnings above include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. PEP will collect these amounts in future annual premium billings when PEP's related liabilities are due for payment. The Government's share of these unpaid claims is approximately \$7,290.

**9. OHIO MUNICIPAL ELECTRIC GENERATION AGENCY VENTURE (OMEGA JV2)**

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

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

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

**9. OHIO MUNICIPAL ELECTRIC GENERATION AGENCY VENTURE (OMEGA JV2) – (Continued)**

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The Village's net investment in OMEGA JV2 was \$1,324 at December 31, 2005 and \$1,399 at December 31, 2004. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**10. OHIO MUNICIPAL ELECTRIC GENERATION AGENCY VENTURE (OMEGA JV5)**

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

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005, and December 31, 2004, the Village of Custar has met their debt coverage obligation.

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005 AND 2004  
(Continued)**

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

The Village's net investment to date in OMEGA JV5 was \$5,569 at December 31, 2005, and \$5,187 at December 31, 2004. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

**11. AMP-OHIO**

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

AMP-Ohio is governed by a Board of Trustees consisting of sixteen members. Each member designates its own representative to the Board of Trustees. Eight of the trustee members are selected by their fellow AMP-Ohio members in each of the services groups. The other eight Board members are elected at large. The main source of revenues is from the sale of electric power. The Village remitted \$147,805 and \$103,315 for 2005 and 2004 respectively to the AMP-Ohio.

**12. SUBSEQUENT EVENTS**

Village entered into several OPWC, OWDA, CDBG, VICF loans and grants during the audit period for a total estimated project total of \$1,398,030.

Per Poggemeyer Design Group, OPWC and OWDA web sites expenditures and OWDA Loan for the related projects did not start until 2006.

The VICF Loan and expenditures were in the 2004 and 2005 fiscal year and recorded in our audit report. However per Poggemeyer the VICF loan was rolled into the OWDA loan in FY 2006 and no payments have been made on the VICF.

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**Auditor of State  
Betty Montgomery**

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

Village of Custar  
Wood County  
PO Box 137  
Custar, Ohio 43511-0137

To the Village Council:

We have audited the financial statements of Village of Custar, Wood County (the Village) as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated November 9, 2006, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We also noted that the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of finding as item 2005-004. In a separate letter to the Village's management date November 9, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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

### **Compliance and Other Matters**

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2005-001 through 2005-003. In a separate letter to the Village's management dated November 9, 2006, we reported other matters related to noncompliance we deemed immaterial.

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



**Betty Montgomery**  
Auditor of State

November 9, 2006

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**FINDING NUMBER 2005-001**

**Noncompliance Citation**

Ohio Revised Code § 5705.36 (A) (1) requires that on or about the first day of each fiscal year, the fiscal officers of subdivisions and other taxing units are to certify to the county auditor the total amount from all sources which is available for expenditures from each fund in the tax budget along with any unencumbered balances that existed at the end of the preceding year.

The Village did not certify to the County Auditor the total amount from all sources which are available for expenditures from each fund in 2005 or 2004. We recommend the Certificate of Total Amounts Available for Expenditure and Balances for all funds be completed and filed with the County Auditor near the beginning of each year.

**Officials Response:**

No Response was received to this finding.

**FINDING NUMBER 2005-002**

**Noncompliance Citation**

Ohio Revised Code § 5705.38 requires that on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until April 1 of the current year. Ohio Revised Code § 5705.39 provides that no appropriation measure is effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

The Village approved permanent appropriations for 2005 and 2004 but did not file the appropriations with the county auditor and thus not receiving the certification from the county auditor. As a result, 2005 and **2004 expenditures exceeded appropriations contrary to Ohio Revised Code § 5705.41(B) which prohibits a subdivision from making expenditures unless they have been lawfully appropriated.**

We recommend that the Clerk review the budgetary procedures to obtain an understanding of the timeline and filing requirements over the budgetary process.

**Officials Response:**

No Response was received to this finding.

### FINDING NUMBER 2005-003

#### Noncompliance Citation

Ohio Revised Code § 5727.82(A)(3) states 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.

The Village did not deposit the portion of tax on the kilowatt hours distributed to the end users located within the boundaries of the municipal corporation in the General Fund for 2005 and 2004. These funds were deposited in the Electric Fund. The Village should have recorded \$7,468 and \$7,985 as *Local Taxes* in the General Fund and then transferred it back to the Electric Fund as their ordinance requires. The accompanying financial statements have been adjusted to show these amounts as tax revenues and transfer out in the General Fund and transfer in to the Electric Fund. We recommend the Village calculate how much tax should be collected from the end users inside the Village boundaries and record this amount in the General Fund and then transfer the amounts to the Electric Fund as required by Village ordinance.

#### Officials Response:

No Response was received to this finding.

### FINDING NUMBER 2005-004

#### Reportable Condition

##### Electric Utility Billing and Collections

During testing of the electric billings and collections we noted the following deficiencies:

- No reconciliation is performed between the cash collections per the utility records to cash receipts posted in the cash journal and deposited in the bank.
- Review of delinquent accounts report is not performed.

These deficiencies resulted in the largest utility customer to the Village not paying one monthly payment in the amount of \$7,059.00 going undetected. The Village obtained payment when the Auditor of State brought the matter to their attention. To strengthen controls and accountability over the billing and collection of electric revenue we recommend:

- Board of Public Affairs should perform monitoring procedures over the electric billing and collection procedures.
- Monthly reconciliations should be performed between the utility billing reports, receipts ledger, delinquency report, and deposits to the bank and these reconciliation should be reviewed by the Board of Public Affairs and presented to Council.

#### Officials Response

No Response was received to this finding.

**VILLAGE OF CUSTAR  
WOOD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2005 AND 2004**

| Finding Number | Finding Summary  | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain</i></b> |
|----------------|--|------------------|--|
| 2003-001       | <b>ORC § 135.18</b><br>uninsured and uncollateralized deposits.    | Yes              | This finding has been corrected.   |
| 2003-002       | <b>ORC § 5705.38</b><br>approving appropriations                   | No               | This finding has not been corrected and is repeated in this report as finding 2005-002.  |
| 2003-003       | <b>ORC § 5705.39</b><br>appropriations exceeding estimated revenue | Yes              | No appropriations were established therefore could not exceed estimated revenue.   |
| 2003-004       | <b>ORC § 5705.41(D)</b><br>certification of funds                  | No               | Partially corrected, issued as a management letter comment.  |
| 2003-005       | <b>ORC § 5705.42</b><br>recording CDBG activity                    | Yes              | This finding has been corrected.   |
| 2003-006       | <b>ORC § 5727.82(A)(3)</b><br>electric distribution tax            | No               | This finding has not been corrected and is repeated in this report as finding 2005-003.  |





**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**VILLAGE OF 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  
DECEMBER 12, 2006**