



Dave Yost • Auditor of State

VILLAGE OF CUSTAR
WOOD COUNTY

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Dave Yost • Auditor of State

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

June 16, 2011

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Custar
Wood County
P. O. Box 137
Custar, Ohio 43511-0137

To the Village Council:

We have audited the accompanying financial statements of Village of Custar, Wood County, Ohio (the Village), as of and for the years ended December 31, 2010 and 2009. 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(A) mandates 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.

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2010 and 2009 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, 2010 and 2009, or its changes in financial position or cash flows, where applicable, 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, 2010 and 2009, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2011, 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.



Dave Yost
Auditor of State

June 16, 2011

**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, 2010**

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|--|--------------------------------|----------------------------|-----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | |
| Property and Local Taxes | \$24,087 | \$1,003 | | \$25,090 |
| Intergovernmental | 9,290 | 8,506 | \$53,500 | 71,296 |
| Fines, Licenses and Permits | 230 | | | 230 |
| Earnings on Investments | 2,111 | 31 | | 2,142 |
| Miscellaneous | 269 | | | 269 |
| | <u>35,987</u> | <u>9,540</u> | <u>53,500</u> | <u>99,027</u> |
| Total Cash Receipts | | | | |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 1,328 | | | 1,328 |
| Leisure Time Activities | 1,906 | | | 1,906 |
| Community Environment | 360 | | | 360 |
| Transportation | | 18,286 | | 18,286 |
| General Government | 19,176 | | | 19,176 |
| Capital Outlay | | | 53,500 | 53,500 |
| | <u>22,770</u> | <u>18,286</u> | <u>53,500</u> | <u>94,556</u> |
| Total Cash Disbursements | | | | |
| | <u>22,770</u> | <u>18,286</u> | <u>53,500</u> | <u>94,556</u> |
| Total Receipts Over/(Under) Disbursements | <u>13,217</u> | <u>(8,746)</u> | | <u>4,471</u> |
| Other Financing Disbursements: | | | | |
| Transfers-Out | (6,054) | | | (6,054) |
| Other Financing Uses | (29) | | | (29) |
| | <u>(6,083)</u> | | | <u>(6,083)</u> |
| Total Other Financing Disbursements | | | | |
| | <u>(6,083)</u> | | | <u>(6,083)</u> |
| Excess of Cash Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | <u>7,134</u> | <u>(8,746)</u> | | <u>(1,612)</u> |
| Fund Cash Balances, January 1 | <u>40,819</u> | <u>55,533</u> | <u>2,730</u> | <u>99,082</u> |
| Fund Cash Balances, December 31 | <u><u>\$47,953</u></u> | <u><u>\$46,787</u></u> | <u><u>\$2,730</u></u> | <u><u>\$97,470</u></u> |
| Reserve for Encumbrances, December 31 | <u><u>\$234</u></u> | <u><u>\$4</u></u> | <u><u>\$14,970</u></u> | <u><u>\$15,208</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 - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Enterprise |
|--|-------------------|
| Operating Cash Receipts: | |
| Charges for Services | \$292,455 |
| Operating Cash Disbursements: | |
| Personal Services | 16,299 |
| Employee Fringe Benefits | 2,440 |
| Contractual Services | 204,130 |
| Supplies and Materials | 8,686 |
| Other | 850 |
| Total Operating Cash Disbursements | 232,405 |
| Operating Income | 60,050 |
| Transfers-In | 6,054 |
| Net Receipts Over Disbursements | 66,104 |
| Fund Cash Balances, January 1 | 282,201 |
| Fund Cash Balances, December 31 | \$348,305 |
| Reserve for Encumbrances, December 31 | \$186 |

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, 2009**

| | <u>Governmental Fund Types</u> | | | Totals (Memorandum Only) |
|---|--------------------------------|----------------------------|-----------------------------|---|
| | <u>General</u> | <u>Special Revenue</u> | <u>Capital Projects</u> | |
| Cash Receipts: | | | | |
| Property and Local Taxes | \$21,739 | \$1,082 | | \$22,821 |
| Intergovernmental | 10,117 | 7,726 | | 17,843 |
| Fines, Licenses and Permits | 30 | | | 30 |
| Earnings on Investments | 5,068 | 28 | | 5,096 |
| Miscellaneous | 283 | | | 283 |
| | <u>37,237</u> | <u>8,836</u> | | <u>46,073</u> |
| Cash Disbursements: | | | | |
| Current: | | | | |
| Security of Persons and Property | 1,953 | | | 1,953 |
| Leisure Time Activities | 6,778 | | | 6,778 |
| Community Environment | 260 | | | 260 |
| Transportation | | 4,700 | | 4,700 |
| General Government | 18,579 | | | 18,579 |
| | <u>27,570</u> | <u>4,700</u> | | <u>32,270</u> |
| Total Cash Disbursements | <u>27,570</u> | <u>4,700</u> | | <u>32,270</u> |
| Total Receipts Over Disbursements | <u>9,667</u> | <u>4,136</u> | | <u>13,803</u> |
| Other Financing Disbursements: | | | | |
| Transfers-Out | (8,044) | | | (8,044) |
| Other Financing Uses | (592) | | | (592) |
| | <u>(8,636)</u> | | | <u>(8,636)</u> |
| Total Other Financing Disbursements | <u>(8,636)</u> | | | <u>(8,636)</u> |
| Excess of Cash Receipts Over Cash Disbursements and Other Financing Disbursements | 1,031 | 4,136 | | 5,167 |
| Fund Cash Balances, January 1 | <u>39,788</u> | <u>51,397</u> | <u>\$2,730</u> | <u>93,915</u> |
| Fund Cash Balances, December 31 | <u>\$40,819</u> | <u>\$55,533</u> | <u>\$2,730</u> | <u>\$99,082</u> |
| Reserve for Encumbrances, December 31 | <u>\$235</u> | <u>\$4</u> | | <u>\$239</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 - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2009**

| | Enterprise |
|--|-------------------|
| Operating Cash Receipts: | |
| Charges for Services | \$197,667 |
| Operating Cash Disbursements: | |
| Personal Services | 19,451 |
| Employee Fringe Benefits | 2,868 |
| Contractual Services | 167,349 |
| Supplies and Materials | 72,780 |
| Claims | |
| Other | 1,468 |
| Total Operating Cash Disbursements | 263,916 |
| Operating Loss | (66,249) |
| Transfers-In | 8,044 |
| Net Disbursements Over Receipts | (58,205) |
| Fund Cash Balances, January 1 | 340,406 |
| Fund Cash Balances, December 31 | \$282,201 |
| Reserve for Encumbrances, December 31 | \$615 |

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, 2010 AND 2009**

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 provides electric utility and a park. The Village contracts with the Village of Weston to receive ambulance service.

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

AMP Ohio:

AMP Ohio provides electric utilities to the Village

Ohio Plan Risk Management:

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

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

B. Accounting Basis

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

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

C. Deposits and Investments

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

1. General Fund

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

2. Special Revenue Funds

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

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

3. Capital Project Funds

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

OPWC Sewer Construction Fund – This fund records revenue and disbursements for the Community Development Block Grant project.

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund and function and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2010 and 2009 budgetary activity appears in Note 3.

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 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:

| | 2010 | 2009 |
|-------------------------|-----------|-----------|
| Demand deposits | \$287,615 | \$225,110 |
| Certificates of deposit | 158,160 | 156,173 |
| Total deposits | \$445,775 | \$381,283 |

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2010 and 2009 follows:

| 2010 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|----------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$24,260 | \$35,987 | \$11,727 |
| Special Revenue | 11,240 | 9,540 | (1,700) |
| Capital Projects | 68,470 | 53,500 | (14,970) |
| Enterprise | 215,300 | 298,509 | 83,209 |
| Total | \$319,270 | \$397,536 | \$78,266 |

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

3. Budgetary Activity (Continued)

| 2010 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|------------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$31,691 | \$29,087 | \$2,604 |
| Special Revenue | 27,870 | 18,290 | 9,580 |
| Capital Projects | 69,981 | 68,470 | 1,511 |
| Enterprise | 212,753 | 232,591 | (19,838) |
| Total | <u>\$342,295</u> | <u>\$348,438</u> | <u>(\$6,143)</u> |

| 2009 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|------------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | | \$37,237 | \$37,237 |
| Special Revenue | | 8,836 | 8,836 |
| Enterprise | | 205,711 | 205,711 |
| Total | | <u>\$251,784</u> | <u>\$251,784</u> |

| 2009 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$40,698 | \$36,441 | \$4,257 |
| Special Revenue | 11,394 | 4,704 | 6,690 |
| Capital Projects | 1,511 | | 1,511 |
| Enterprise | 303,248 | 264,531 | 38,717 |
| Total | <u>\$356,851</u> | <u>\$305,676</u> | <u>\$51,175</u> |

Contrary to Ohio law, appropriations exceeded estimated resources in all funds in 2009 and expenditures exceeded appropriations in the State Highway Fund and the Utility Operating Fund in 2010.

4. Property Tax

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

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

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

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(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 postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2010 and 2009, 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, 2010.

6. Risk Pool Membership

On January 1, 2009, through an internal reorganization, the Ohio Government Risk Management Plan (The Plan) created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

The Village belongs to the Ohio Plan Risk Management, Inc. Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retain 17.5% (15% through October 31, 2009) 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 725 members as of December 31, 2009. The Village participates in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium ("OPHC"), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision and prescription drug coverage as well as life insurance for its members. The OPHC is sold through seventeen appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays and out-of pocket maximums. OPHC had 60 members as of December 31, 2009. The Village does not participate in this coverage.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

6. Risk Pool Membership (Continued)

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 retained earnings at December 31: 2009 and 2008 (the latest information available), and include amounts for both OPRRM and OPHC:

| | 2009 OPRM | 2009 OPHC | 2009 | 2008 |
|-----------------|------------------|------------------|--------------|--------------|
| Assets | \$11,176,186 | \$1,358,802 | \$12,534,988 | \$10,471,114 |
| Liabilities | (4,852,485) | (1,253,617) | (6,106,102) | (5,286,781) |
| Members' Equity | \$6,323,701 | \$105,185 | \$6,428,886 | \$5,184,333 |

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

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

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

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

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

7. 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, 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. The Village's net investment in OMEGA JV2 was \$954 at December 31, 2010. Complete financial statements for OMEGA JV2 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2010 are:

| Municipality | Percent Ownership | Kw Entitlement | Municipality | Percent Ownership | Kw Entitlement |
|----------------|-------------------|----------------|----------------|-------------------|----------------|
| Hamilton | 23.87% | 32,000 | Grafton | 0.79% | 1,056 |
| Bowling Green | 14.32% | 19,198 | Brewster | 0.75% | 1,000 |
| Niles | 11.49% | 15,400 | Monroeville | 0.57% | 764 |
| Cuyahoga Falls | 7.46% | 10,000 | Milan | 0.55% | 737 |
| Wadsworth | 5.81% | 7,784 | Oak Harbor | 0.55% | 737 |
| Painesville | 5.22% | 7,000 | Elmore | 0.27% | 364 |
| Dover | 5.22% | 7,000 | Jackson Center | 0.22% | 300 |
| Galion | 4.29% | 5,753 | Napoleon | 0.20% | 264 |
| Amherst | 3.73% | 5,000 | Lodi | 0.16% | 218 |
| St. Mary's | 2.98% | 4,000 | Genoa | 0.15% | 199 |
| Montpelier | 2.98% | 4,000 | Pemberville | 0.15% | 197 |
| Shelby | 1.89% | 2,536 | Lucas | 0.12% | 161 |
| Versailles | 1.24% | 1,660 | South Vienna | 0.09% | 123 |
| Edgerton | 1.09% | 1,460 | Bradner | 0.09% | 119 |
| Yellow Springs | 1.05% | 1,408 | Woodville | 0.06% | 81 |
| Oberlin | 0.91% | 1,217 | Haskins | 0.05% | 73 |
| Pioneer | 0.86% | 1,158 | Arcanum | 0.03% | 44 |
| Seville | 0.79% | 1,066 | Custar | 0.00% | 4 |
| | <u>95.20%</u> | <u>127,640</u> | | <u>4.80%</u> | <u>6,441</u> |
| | | | Grand Total | <u>100.00%</u> | <u>134,081</u> |

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

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

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

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2010, Custar has not met their debt coverage obligation. As of December 31, 2009, Custar has met their 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 (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 \$6,482 at December 31, 2010. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009
(Continued)**

9. AMP-OHIO

The Village is a member of AMP-Oho 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 \$186,048 for 2010 and \$154,668 for 2009 to AMP-Ohio.

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Dave Yost • Auditor of State

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

Village of Custar
Wood County
P. O. Box 137
Custar, Ohio 43511-0137

To the Village Council:

We have audited the financial statements of the Village of Custar, Wood County, Ohio (the Village), as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated June 16, 2011 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 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(A) mandates the Auditor of State to audit Ohio governments. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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 more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2010-001 and 2010-002.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated June 16, 2011.

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

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



Dave Yost
Auditor of State

June 16, 2011

VILLAGE OF CUSTAR
WOOD COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009

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

FINDING NUMBER 2010-001

Noncompliance Citation

Ohio Revised Code, § 5705.41(B), prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. Expenditures (cash disbursements plus encumbrances) exceeded appropriations in the following funds for 2010:

| Fund | Appropriations | Expenditures | Excess |
|--------------------|----------------|--------------|----------|
| 2010 | | | |
| State Highway Fund | | \$131 | (\$131) |
| Electric Operating | \$211,903 | 231,743 | (19,840) |

The failure to have adequate appropriations in place at the time expenditures are being made could cause expenditures to exceed available resources, further resulting in deficit spending practices.

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request that Council approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials' Response:

The Village plans on correcting this.

FINDING NUMBER 2010-002

Noncompliance Citation

Ohio Revised Code, § 5705.39, states that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals. For purposes of this section of the Ohio Revised Code, estimated revenue is commonly referred to as "estimated resources" because it includes unencumbered fund balances.

The Village did not certify to the county auditor the total amount from all sources available for expenditures from each fund for 2009. Therefore, the county auditor could not prepare the certificate of estimated resources. This created appropriations in excess of estimated resources in all funds for 2009, ranging in amounts from \$1,511 to \$301,302.

Allowing appropriations to remain higher than estimated resources increases the possibility appropriations may be unrealistically inflated which could result in deficit spending.

Management should file the required certificate of amounts available for expenditure and monitor estimated resources and appropriations throughout the year and make the necessary modifications, with approval of Village Council, to avoid appropriations exceeding estimated resources to reduce the possibility of overspending.

Officials' Response:

The Village corrected this in 2010.

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**VILLAGE OF CUSTAR
WOOD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|--|------------------|--|
| 2008-001 | ORC §5727.82(A)(3) distribution of electric utility tax. | Yes | |
| 2008-002 | Ohio Revised Code § 5705.39 appropriations exceeded estimated resources. | No | Partially Corrected. Repeated as finding number 2010-002 in this report. |
| 2008-003 | Ohio Revised Code § 5705.41(B) expenditures exceed appropriations | No | This finding has not been corrected and is repeated as finding number 2010-001 in this report. |
| 2008-004 | Material Weakness due to Financial Reporting errors. | No | Partially corrected this finding has been repeated in the management letter. |

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VILLAGE OF CUSTAR

WOOD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 05, 2011