

**VILLAGE OF PROSPECT
MARION COUNTY
Regular Audit
For the Years Ended December 31, 2010 and 2009**

Perry & Associates
Certified Public Accountants, A.C.



Dave Yost • Auditor of State

Village Council
Village of Prospect
139 Main Street
Prospect, Ohio 43342

We have reviewed the *Independent Accountants' Report* of the Village of Prospect, Marion County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2009 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Accountants' Report* on your financial statements. While the Auditor of State 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. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Accountants' Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Prospect is responsible for compliance with these laws and regulations.

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

Dave Yost
Auditor of State

December 9, 2011

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VILLAGE OF PROSPECT
MARION COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

September 23, 2011

Village of Prospect
Marion County
139 Main St.
Prospect, Ohio 43342

To the Village Council:

We have audited the accompanying financial statements of **Village of Prospect**, Marion 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. 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 the 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 the Village of Prospect, Marion County, Ohio, 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 September 23, 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.

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

**VILLAGE OF PROSPECT
MARION 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>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 57,798	\$ 33,458	\$ -	\$ 91,256
Intergovernmental	53,246	41,310	-	94,556
Fines, Licenses, and Permits	3,974	-	-	3,974
Earnings on Investments	12,058	85	-	12,143
Miscellaneous	2,876	86	-	2,962
	<u>129,952</u>	<u>74,939</u>	<u>-</u>	<u>204,891</u>
Total Cash Receipts				
	<u>129,952</u>	<u>74,939</u>	<u>-</u>	<u>204,891</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	75,408	-	-	75,408
Public Health Service	1,094	-	-	1,094
Transportation	-	87,896	-	87,896
General Government	201,146	-	-	201,146
Debt Service:				
Principal Payment	-	-	131,456	131,456
	<u>-</u>	<u>-</u>	<u>131,456</u>	<u>131,456</u>
Total Cash Disbursements				
	<u>277,648</u>	<u>87,896</u>	<u>131,456</u>	<u>497,000</u>
Total Cash Receipts Over/(Under) Disbursements	<u>(147,696)</u>	<u>(12,957)</u>	<u>(131,456)</u>	<u>(292,109)</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	-	19,770	122,662	142,432
Transfers-Out	(19,770)	-	-	(19,770)
Other Financing Sources	16,519	-	-	16,519
	<u>(3,251)</u>	<u>19,770</u>	<u>122,662</u>	<u>139,181</u>
Total Other Financing Receipts/(Disbursements)				
	<u>(3,251)</u>	<u>19,770</u>	<u>122,662</u>	<u>139,181</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(150,947)	6,813	(8,794)	(152,928)
Fund Cash Balances, January 1	<u>230,520</u>	<u>18,243</u>	<u>1,203</u>	<u>249,966</u>
Fund Cash Balances, December 31	<u>\$ 79,573</u>	<u>\$ 25,056</u>	<u>\$ (7,591)</u>	<u>\$ 97,038</u>
Reserve for Encumbrances, December 31	<u>\$ 2,198</u>	<u>\$ 808</u>	<u>\$ -</u>	<u>\$ 3,006</u>

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

**VILLAGE OF PROSPECT
MARION COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 1,345,181
Miscellaneous	4,573
Total Operating Cash Receipts	1,349,754
Operating Cash Disbursements:	
Personal Services	210,793
Employee Fringe Benefits	126,431
Contractual Services	761,083
Supplies and Materials	65,919
Other	1,564
Total Operating Cash Disbursements	1,165,790
Operating Income (Loss)	183,964
Non-Operating Receipts/(Disbursements)	
Property and Other Local Taxes	21,806
Sale of Fixed Assets	3,000
Miscellaneous Receipts	42,649
Capital Outlay	(73,332)
Other Uses	(16,519)
Total Non-Operating/(Disbursements)	(22,396)
Excess of Cash Receipts Over/(Under) Disbursements Before Interfund Transfers	161,568
Transfers-Out	(122,662)
Net Receipts Over/(Under) Disbursements	38,906
Fund Cash Balances, January 1	1,302,522
Fund Cash Balances, December 31	\$ 1,341,428
Reserve for Encumbrances, December 31	\$ 4,999

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

**VILLAGE OF PROSPECT
MARION 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>Debt Service</u>	
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 52,047	\$ 43,910	\$ -	\$ 95,957
Intergovernmental	52,528	32,982	-	85,510
Fines, Licenses, and Permits	3,484	-	-	3,484
Earnings on Investments	4,518	220	-	4,738
Miscellaneous	1,488	535	-	2,023
Total Cash Receipts	<u>114,065</u>	<u>77,647</u>	<u>-</u>	<u>191,712</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	81,388	-	-	81,388
Public Health Service	5,483	-	-	5,483
Transportation	-	109,425	-	109,425
General Government	80,554	-	-	80,554
Debt Service:				
Redemption of Principal	-	-	131,456	131,456
Total Cash Disbursements	<u>167,425</u>	<u>109,425</u>	<u>131,456</u>	<u>408,306</u>
Total Cash Receipts Over/(Under) Disbursements	<u>(53,360)</u>	<u>(31,778)</u>	<u>(131,456)</u>	<u>(216,594)</u>
Other Financing Receipts/(Disbursements):				
Transfers-In	-	-	132,000	132,000
Other Financing Sources	5	-	-	5
Other Financing Uses	(146)	-	-	(146)
Total Other Financing Receipts/(Disbursements)	<u>(141)</u>	<u>-</u>	<u>132,000</u>	<u>131,859</u>
Extraordinary Item	124	-	-	124
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(53,377)	(31,778)	544	(84,611)
Fund Cash Balances, January 1	<u>283,897</u>	<u>50,021</u>	<u>659</u>	<u>334,577</u>
Fund Cash Balances, December 31	<u>\$ 230,520</u>	<u>\$ 18,243</u>	<u>\$ 1,203</u>	<u>\$ 249,966</u>
Reserve for Encumbrances, December 31	<u>\$ 117,478</u>	<u>\$ 816</u>	<u>\$ -</u>	<u>\$ 118,294</u>

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

**VILLAGE OF PROSPECT
MARION COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 1,274,703
Miscellaneous	4,759
	<u>1,279,462</u>
Total Operating Cash Receipts	
Operating Cash Disbursements:	
Personal Services	207,020
Employee Fringe Benefits	119,505
Contractual Services	745,190
Supplies and Materials	51,847
Other	1,646
	<u>1,125,208</u>
Total Operating Cash Disbursements	
Operating Income (Loss)	<u>154,254</u>
Non-Operating Receipts/(Disbursements)	
Property and Other Local Taxes	24,111
Miscellaneous Receipts	19,761
Capital Outlay	(223)
	<u>43,649</u>
Total Non-Operating Receipts/(Disbursements)	
Excess of Cash Receipts Over/(Under) Disbursements Before Interfund Transfers	197,903
Transfers-Out	<u>(132,000)</u>
Net Receipts Over/(Under) Disbursements	65,903
Fund Cash Balances, January 1	<u>1,236,619</u>
Fund Cash Balances, December 31	\$ 1,302,522
Reserve for Encumbrances, December 31	<u>\$ 11,786</u>

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

**VILLAGE OF PROSPECT
MARION 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 Prospect, Marion County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides electric and sewer utilities. The Village contracts with the Marion County Sheriff's Department to provided security of persons and property.

The Village participates in one jointly governed organization and the Public Entities Pool of Ohio public entity risk pool. Notes 7 & 8 to the financial statements provides additional information for these entities. These organizations are:

Jointly Governed Organizations:

The Village of Prospect is a Financing Participant with an ownership percentage of .27%, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Public Entity Risk Pool:

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

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

B. 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. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Deposits and Investments

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

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

**VILLAGE OF PROSPECT
MARION COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

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

1. General Fund

The General Fund 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 license tax money for constructing, maintaining, and repairing Village streets.

3. Debt Service Fund

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant Debt Service Fund:

Bond Retirement Fund (Waste Water Treatment Plant) - This fund receives transfers from the Sewer Fund for the purpose of retiring related debt.

4. Enterprise Funds

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

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

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

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

**VILLAGE OF PROSPECT
MARION COUNTY**

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

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 AND INVESTMENTS

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

	<u>2010</u>	<u>2009</u>
Demand deposits	\$ 817,502	\$ 382,593
Certificates of deposit	-	500,000
Total deposits	<u>817,502</u>	<u>882,593</u>
STAR Ohio	<u>620,964</u>	<u>669,895</u>
Total investments	<u>620,964</u>	<u>669,895</u>
Total deposits and investments	<u>\$ 1,438,466</u>	<u>\$ 1,552,488</u>

**VILLAGE OF PROSPECT
MARION COUNTY**

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

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS (Continued)

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

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

3. BUDGETARY

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	\$ 173,582	\$ 146,471	\$ (27,111)
Special Revenue	80,116	94,709	14,593
Debt Service	-	122,662	122,662
Enterprise	1,280,710	1,417,209	136,499
Total	<u>\$ 1,534,408</u>	<u>\$ 1,781,051</u>	<u>\$ 246,643</u>

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 310,000	\$ 299,616	\$ 10,384
Special Revenue	96,095	88,704	7,391
Debt Service	7,254	131,456	(124,202)
Enterprise	2,561,455	1,383,302	1,178,153
Total	<u>\$ 2,974,804</u>	<u>\$ 1,903,078</u>	<u>\$ 1,071,726</u>

2009 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 183,666	\$ 114,070	\$ (69,596)
Special Revenue	91,127	77,647	(13,480)
Debt Service	132,269	132,000	(269)
Enterprise	1,244,733	1,323,334	78,601
Total	<u>\$ 1,651,795</u>	<u>\$ 1,647,051</u>	<u>\$ (4,744)</u>

2009 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 718,126	\$ 285,049	\$ 433,077
Special Revenue	141,148	110,241	30,907
Debt Service	133,871	131,456	2,415
Enterprise	2,279,803	1,269,217	1,010,586
Total	<u>\$ 3,272,948</u>	<u>\$ 1,795,963</u>	<u>\$ 1,476,985</u>

**VILLAGE OF PROSPECT
MARION COUNTY**

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

4. PROPERTY TAX

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

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

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

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

5. RETIREMENT SYSTEMS

The Village's elected officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes this plans' 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. DEBT

Debt outstanding at December 31, 2010 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$ 1,898,671	0.00%
Ohio Public Works Commission Loan	258,117	0.00%
Total	<u>\$ 2,156,788</u>	

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant project that was mandated by the Ohio EPA. The OWDA has provided \$2,247,191 in loans to the Village for this project. The loan will be repaid in semi-annual installments of \$57,662, over 20 years. The loan is scheduled to be paid off on July 1, 2027. The prior report December 31, 2008 balance of \$2,131,868 was overstated by \$2,549 and should have been \$2,129,319.

The Village entered into an agreement in 2004 with OPWC to loan \$322,646 for Water System Improvements. The loan will be repaid in semi-annual installments of \$8,066, over 20 years. The loan is scheduled to be paid off on July 1, 2026.

**VILLAGE OF PROSPECT
MARION COUNTY**

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

6. DEBT (Continued)

Amortization of the above debt, including interest, follows:

Year ending December 31:	<u>OWDA Loan</u>	<u>OPWC Loan</u>
2011	\$ 115,324	\$ 16,132
2012	115,324	16,132
2013	115,324	16,132
2014	115,324	16,132
2015	115,324	16,132
2016-2020	576,620	80,661
2021-2025	576,620	80,661
2026-2027	168,811	16,135
Total	<u>\$ 1,898,671</u>	<u>\$ 258,117</u>

7. RISK MANAGEMENT

Risk Pool Management

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

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2009, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

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

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, 2009 and 2008 (the latest information available):

	<u>2009</u>	<u>2008</u>
Assets	\$36,374,898	\$35,769,535
Liabilities	(15,256,862)	(15,310,206)
Net Assets	<u>\$21,118,036</u>	<u>\$20,459,329</u>

**VILLAGE OF PROSPECT
MARION COUNTY**

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

7. RISK MANAGEMENT (Continued)

At December 31, 2009 and 2008, respectively, the liabilities above include approximately \$14.1 million and \$13.7 million of estimated incurred claims payable. The assets above also include approximately \$13.7 million and \$12.9 million of unpaid claims to be billed to approximately 447 member Villages in the future, as of December 31, 2009 and 2008, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2009, the Village's share of these unpaid claims collectible in future years is approximately \$19,000.

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

<u>Contributions to PEP</u>	
<u>2010</u>	<u>2009</u>
\$19,696	\$19,457

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

8. JOINT VENTURE

Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)

The Village of Prospect is a Financing Participant with an ownership percentage of .27 %, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

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

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

**VILLAGE OF PROSPECT
MARION COUNTY**

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

8. JOINT VENTURE (Continued)

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 Prospect has met their debt coverage obligation. The liability is disclosed in Note 10.

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-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 \$29,168 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.

9. PRAIRIE STATE PROJECT

The Prairie State Energy Campus (the "PSEC") will consist of a supercritical coal-fired, mine mouth generating facility intended to have a maximum net rate electric generating capacity of approximately 1,582 MW, related equipment and facilities and associated coal reserves. The PSEC Owners (as defined below), including AMP-Ohio, own the PSEC. The generating facilities are being constructed pursuant to a TPEPC Contract (as defined herein) with Bechtel Power Corporation. The generating units and mining facilities to be in commercial operation by December 2012.

AMP-Ohio's 23.26% Ownership Interest in the PSEC (the "Ownership Interest") entitles AMP-Ohio to approximately 368 MW of the capacity and output from the PSEC and proportionate share of the adjacent coal reserves and mining facilities. The Village has passed appropriate legislation and executed a power sales contract to participate in this project and has been allocated approximately 0.1 MW of the project.

**VILLAGE OF PROSPECT
MARION COUNTY**

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

9. PRAIRIE STATE PROJECT (Continued)

In addition to AMP-Ohio’s ownership interest in the PSEC, other undivided interests therein are owned by the Kentucky Municipal Power Agency (“KMPA”); the Northern Municipal Power Agency (“NIMPA”); the Illinois Municipal Electric Agency (“IMEA”); the Indiana Municipal Power Agency (“IMPA”); Lively Grove Energy Partners, LLC (“Lively Grove Energy”), currently a wholly-owned indirect subsidiary of Peabody Energy; the Missouri Joint Municipal Electric Utility Commission (“MJMEUC”); and Prairie Power, Inc. (“PPI”) and Southern Illinois Power Cooperative (“SIPC”), both not for profit electric generation and transmission cooperatives (collectively, and together with AMP 368 LLC, the (“PSEC Owners”).

<u>Owner</u>	<u>Ownership Interest</u>
AMP-Ohio	23.26%
IMEA	15.17%
IMPA	12.64%
MJMEUC	12.33%
PPI	8.22%
SIPC	7.90%
KMPA	7.82%
NIMPA	7.60%
Lively Grove Energy	5.06%
<hr/>	
Total	100%

AMPGS. AMP-Ohio is currently developing a twin unit, supercritical boiler, coal-fired, steam and electric generating facility having an aggregate net rated electric generating capacity of approximately 960 MW, to be known as the American Municipal Power Generating Station (“AMPGS”) in Meigs County, in Southeastern Ohio on the Ohio River. AMP-Ohio has options on the site and has engaged an independent engineering firm for owner engineer services in connection with its efforts to obtain and evaluate proposals from three potential engineer, procure, construct (EPC) contractors for AMPGS. To the extent that AMP-Ohio’s members do not subscribe for the full capacity in AMPGS, AMP-Ohio expects to sell undivided ownership interest to unrelated parties. AMP-Ohio has received air permit from the Ohio Environmental Protection Agency for the AMPGS project. That permit is being appealed to the Ohio Environmental Review Appeals Commission. In addition, the Ohio Power Siting Board has issued a Certificate of Environmental Compatibility of Public Need for the AMPGS project. As of all interest expense prior to the commercial operation date in 2013, would be approximately \$3.391 billion dollars. AMP-Ohio’s shares of the expense for a smaller ownership interest would be reduced proportionately.

**VILLAGE OF PROSPECT
MARION COUNTY**

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

9. PRAIRIE STATE PROJECT (Continued)

Hydroelectric Projects. AMP-Ohio is also currently developing three hydroelectric projects (the “Hydroelectric Projects”) – the Cannelton hydroelectric generating facility, the Smithland hydroelectric generating facility and the Willow Island hydroelectric generating facility – all on the Ohio River, with an aggregate generating capacity of approximately 191 MW. Each of these projects entail the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers’ dams and includes associated transmissions facilities, will be constructed, owned and operated by AMP-Ohio. AMP-Ohio has obtained from the Federal Energy Regulatory Commission licenses to operate all three hydroelectric generation facilities. In a feasibility report prepared for AMP-Ohio would be required to issue to finance the three projects, including capitalized interest to their estimated in service dates in 2012, will be approximately \$940 million. AMP-Ohio currently expects to provide interim financing for the Hydroelectric Projects through its Line of Credit, including the issuance of CP, and to issue a portion of its permanent financing therefore in the summer of 2010 when it expects to commence construction of the cofferdams for the projects.

10. INTERFUND TRANSFERS

In 2010 and 2009, the Village transferred funds from the Sewer Operating Fund to the Debt Service Fund for the purpose of paying sewer related debt. The Village met all applicable requirements of Ohio Rev. Code section 5705.14.

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

September 23, 2011

Village of Prospect
Marion County
139 Main St.
Prospect, Ohio 43342

To the Village Council:

We have audited the financial statements of **Village of Prospect**, Marion County, Ohio (the Village) as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated September 23, 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 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.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider findings 2010-001 and 2010-002 described in the accompanying schedule of audit findings to be material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 one instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2010-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated September 23, 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 them.

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

Respectfully Submitted,



Perry and Associates
Certified Public Accountants, A.C.

VILLAGE OF PROSPECT
MARION COUNTY

SCHEDULE OF AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009

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

FINDING NUMBER 2010-001

Non-Compliance/Material Weakness

Ohio Rev. Code Section 5705.10 requires that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

The Village had negative fund balances at December 31, 2010 as follows:

<u>Fund</u>	<u>Deficit</u>
Debt Service Fund	(\$7,591)

A negative cash fund balance is an indication that revenues from other sources were used to pay obligations of these funds. Fund activity should be monitored by the Fiscal Officer to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Revised Code.

We recommend the Village monitor their fund balances to ensure that money from various funds is not used to pay obligations of other funds.

Management's Response – Deficit referred to above: Loan payments for WWTP were made with funds appropriated to said account but were not sufficient. Direction was given to make remainder from WWTP operating fund. All funds used were WWTP.

FINDING NUMBER 2010-002

Material Weakness

Posting Receipts and Expenditures

Receipts and expenditures should be posted to the fund and line item accounts as established by Ohio Administrative Code.

During 2010 and 2009, several receipts and expenditures were not posted to accurate classifications based on the source of the receipt or expenditure. The following posting errors were noted:

- Intergovernmental revenue was recorded as property tax in 2010 and 2009 and as miscellaneous receipts in 2010.
- Charges for services revenue was recorded as miscellaneous receipts in the General Fund in 2009 and sale of notes in the Debt Service Fund in 2010 and 2009 rather than posted to the Enterprise Fund.
- Various posting errors resulted in adjustments being proposed to restate beginning fund balances per the accounting system for 2009.
- Contractual services expenditures were incorrectly recorded as redemption of principal and interest and other fiscal charges in 2010 and 2009.

VILLAGE OF PROSPECT
MARION COUNTY

SCHEDULE OF AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009

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

FINDING NUMBER 2010-002 (Continued)

These errors caused a significant number of adjusting entries for 2010 and 2009, which management has agreed to and recorded. The accompanying financial statements reflect all adjustments and reclassifications.

To help ensure accuracy and reliability in the financial reporting process, we recommend that management review both revenue and disbursement items. Such review should include procedures to ensure that all sources of revenues and expenditures are properly identified and classified on the financial statements. Management should review the bank reconciliations monthly to make sure all transactions are being recorded and no unexplained differences or long outstanding items exist.

We recommend the Fiscal Officer refer to Ohio Administrative Code and/or the Ohio Village Handbook for guidance to determine the proper establishment of receipt and expenditure accounts and posting of receipts and expenditures. We also recommend the Fiscal Officer reconcile bank balances to the Village's book balance at the end of each month and provide this to Council to review and approve.

Management's Response – Note taken, will review often to check correctness. Council is already reviewing bank reconciliations monthly and signing.

VILLAGE OF PROSPECT
MARION 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	Posting Receipts and Expenditures	No	Not Corrected, Repeated as Finding 2010-001

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Dave Yost • Auditor of State

VILLAGE OF PROSPECT

MARION COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 22, 2011