



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF PROSPECT
MARION COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2018 and 2017
Fiscal Years Audited Under GAGAS: 2018 and 2017

OHIO AUDITOR OF STATE
KEITH FABER



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Village Council
Village of Prospect
200 N East St
Prospect, OH 43342

We have reviewed the *Independent Auditor's Report* of the Village of Prospect, Marion County, prepared by BHM CPA Group, Inc., for the audit period January 1, 2017 through December 31, 2018. 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.

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 cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

October 3, 2019

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Village of Prospect
Marion County, Ohio
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INDEPENDENT AUDITOR'S REPORT

Village of Prospect
Marion County
200 North East Street
Prospect, Ohio 43342

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Prospect, Marion County, Ohio (the Village) as of and for the years ended December 31, 2018 and 2017.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2018 and 2017, and the respective changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Prospect, Marion County as of December 31, 2018 and 2017, for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2019, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



BHM CPA Group, Inc.
Piketon, Ohio
August 23, 2019

**VILLAGE OF PROSPECT
MARION COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Taxes	\$ 144,200	\$ 21,612	\$ 165,812
Intergovernmental	19,474	46,167	65,641
Fines, Licenses, and Permits	3,564	-	3,564
Earnings on Investments	16,056	-	16,056
Miscellaneous	11,301	153	11,454
	<u>194,595</u>	<u>67,932</u>	<u>262,527</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	32,942	-	32,942
Leisure Time Activities	41,343	-	41,343
Transportation	-	55,951	55,951
General Government	191,312	-	191,312
	<u>265,597</u>	<u>55,951</u>	<u>321,548</u>
Excess of Receipts Over/(Under) Disbursements	(71,002)	11,981	(59,021)
Other Financing Receipts (Disbursements):			
Sale of Capital Assets	76,975	-	76,975
Transfers-Out	(3,413)	(3,413)	(6,826)
	<u>73,562</u>	<u>(3,413)</u>	<u>70,149</u>
Total Other Financing Receipts (Disbursements)	<u>73,562</u>	<u>(3,413)</u>	<u>70,149</u>
Net Change in Fund Cash Balances	2,560	8,568	11,128
Fund Cash Balances, January 1	<u>353,172</u>	<u>57,264</u>	<u>410,436</u>
Fund Cash Balances, December 31			
Restricted	-	65,832	65,832
Unassigned	355,732	-	355,732
	<u>355,732</u>	<u>65,832</u>	<u>421,564</u>
Fund Cash Balances, December 31	<u>\$ 355,732</u>	<u>\$ 65,832</u>	<u>\$ 421,564</u>

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

VILLAGE OF PROSPECT
MARION COUNTY

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Proprietary Fund Types	
	Enterprise	
Operating Cash Receipts:		
Charges for Services	\$	1,554,333
Miscellaneous		3,248
		1,557,581
Total Operating Cash Receipts		1,557,581
Operating Cash Disbursements:		
Personal Services		209,691
Employee Fringe Benefits		117,988
Contractual Services		828,063
Supplies and Materials		73,726
Other		1,569
		1,231,037
Total Operating Cash Disbursements		1,231,037
Operating Income (Loss)		326,544
Non-Operating Receipts (Disbursements)		
Property and Other Local Taxes		28,190
Miscellaneous Receipts		23,093
Capital Outlay		(16,690)
Principal Retirement		(164,494)
Interest and Fiscal Charges		(24,743)
		(154,644)
Total Non-Operating Cash Receipts (Disbursements)		(154,644)
Income (Loss) before Transfers		171,900
Transfers Out		(6,826)
Transfers In		13,652
		178,726
Net Change in Fund Cash Balances		178,726
Fund Cash Balances, January 1		745,407
Fund Cash Balances, December 31	\$	924,133

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, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Prospect, Marion County, Ohio, (the Village) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides sewer, solid waste, and electric utilities, park operations (leisure time activities), and pool services. The Village contracts with the Marion County Sheriff's department to provide security of persons and property.

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

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

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

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

The Village's management believes these financial statements represent 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds:

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

3. Enterprise Funds:

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

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

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

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (continued)

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing sewer services.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

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 2018 budgetary activity appears in Note 3.

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Balance (continued)

3. Committed

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

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	<u>2018</u>
Demand deposits	\$474,140
Certificates of deposit	<u>286,488</u>
Total deposits	<u>760,628</u>
STAR Ohio	<u>585,069</u>
Total deposits and investments:	<u>\$1,345,697</u>

Deposits: The Village's deposits are insured by the Federal Deposit Insurance Corporation, or collateralized by securities specifically pledged by the financial institution to the Village.

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2018, was as follows:

2018 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$154,499	\$271,570	\$117,071
Special Revenue	82,900	67,932	(14,968)
Enterprise	<u>1,302,120</u>	<u>1,622,516</u>	<u>320,396</u>
Total	<u>\$1,539,519</u>	<u>\$1,962,018</u>	<u>\$422,499</u>

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

3. BUDGETARY ACTIVITY (CONTINUED)

2018 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Disbursements</u>	<u>Variance</u>
General	\$516,126	\$269,010	\$247,116
Special Revenue	136,707	59,364	77,343
Enterprise	<u>2,042,601</u>	<u>1,443,790</u>	<u>598,811</u>
Total	<u>\$2,695,434</u>	<u>\$1,772,164</u>	<u>\$923,270</u>

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.

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

5. DEBT

Debt outstanding at December 31, 2018 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC Loan	\$129,056	0.00%
OWDA Loan	1,010,088	0.00%
AMP Ohio Payable – JV5	<u>18,917</u>	variable
Total	<u>\$1,158,061</u>	

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

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

Information regarding AMP Ohio Payable – JV5 is included in Note 8 to the financial statements. No amortization schedule is available for this loan.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

5. DEBT (CONTINUED)

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

Year Ending December 31:	OPWC Loan	OWDA Loans
2019	16,132	112,232
2020	16,132	112,232
2021	16,132	112,232
2022	16,132	112,232
2023	16,132	112,232
2024-2028	48,396	448,928
Totals	<u>\$129,056</u>	<u>\$1,010,088</u>

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 10% of gross wages. The Village contributed an amount equal to 14% of participants' gross wages. The Village has paid all contributions required through December 31, 2018.

7. RISK MANAGEMENT

Risk Pool Membership

The (Village) is a member of the Public Entities Pool of Ohio (The Pool). The Pool assumes the risk of loss up to the limits of the (Village's) policy. The Pool covers the following risks:

- General liability and casualty
- Public official's liability
- Cyber
- Law enforcement liability
- Automobile liability
- Vehicles
- Property
- Equipment breakdown

The Pool reported the following summary of assets and actuarially-measured liabilities available to pay those liabilities as of December 31:

	2018
Cash and investments	\$ 35,381,789
Actuarial liabilities	\$12,965,015

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

8. JOINT VENTURES

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.

Also 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, 2018, Prospect has met its debt coverage obligation.

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

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The Village's net investment to date in OMEGA JV5 was \$8,067 at December 31, 2018. 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 PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

9. AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 1,088 kilowatts of a total 771,281 kilowatts, giving the Village an 0.14 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, payment of these costs was not made due to AMP's pursuit of legal action to void them. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share at March 31, 2014 of the impaired costs is \$188,603. The Village received a credit of \$58,030 related to their participation in the AMP Freemont Energy Center (AFEC) Project, and another credit of \$49,205 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future use (PHFU), leaving an estimated net impaired cost balance of \$81,368. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact, either positively or negatively, the Village's net impaired cost balance. These amounts will be recorded as they become estimable.

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the

participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014 the Village has made payments of \$46,756 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$1,894 and interest expense incurred on AMP's line-of-credit of \$1,650, resulting in a net impaired cost estimate at December 31, 2018 of \$38,156. The Village does have a potential PHFU Liability of \$50,609 resulting in a net total potential liability of \$88,765, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the Village's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such as negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

The Village intends to recover these costs and repay AMP over the next 7 years through a power cost adjustment.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

10. SEGMENT INFORMATION

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric Generation Agency (OMEGA) Joint Ventures as described in Note 8. The Village is liable for debt related to the financing of the OMEGA joint ventures. The activity is accounted for in the Village's Electric Fund, which is reported as part of the combined Enterprise Fund Type in the financial statements. Summary financial information for the Electric Fund is presented below:

	<u>2018</u>
Condensed Operating Information:	
Operating Receipts	
Charges for Services	1,117,357
Other Operating Receipts	<u>3,248</u>
Total Operating Receipts	1,120,605
Operating Expenses	<u>952,821</u>
Operating Income (Loss)	167,784
Nonoperating Receipts (Disbursements)	
Principal Payments	(36,130)
Interest Payments	(24,743)
Other Nonoperating Receipts (Disbursements)	24,817
Transfers	<u>13,652</u>
Change in Fund Cash Balance	145,380
Beginning Fund Cash Balance	<u>178,259</u>
Ending Fund Cash Balance	<u><u>\$323,639</u></u>

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018**

11. INTERFUND BALANCES

Outstanding advance at December 31, 2018, consisted of the following:

From	To	Amount
Electric Operating	General	\$ 28,295
Electric Operating	Street Construction	28,295
Electric Operating	Sewer Operating	28,295
Electric Operating	Solid Waste Operation	28,295
General	Swimming Pool	1,000
General	State Highway	3,000
	Total	\$ 117,180

During 2015 and 2016 the Village decided to build a new equipment building using the Electric Operating Funds instead of obtaining a bank loan. The Village had determined that the above funds should repay the Electric Operating Fund based on usage. Each of the funds are responsible for 12.5% of the construction cost to be paid back to the Electric Fund over a ten-year period.

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**VILLAGE OF PROSPECT
MARION COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property Taxes	\$ 157,752	\$ 47,010	\$ -	\$ 204,762
Intergovernmental	18,644	28,348	-	46,992
Fines, Licenses, and Permits	6,236	-	-	6,236
Earnings on Investments	8,595	-	-	8,595
Miscellaneous	681	3,884	-	4,565
Total Cash Receipts	<u>191,908</u>	<u>79,242</u>	<u>-</u>	<u>271,150</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	38,182	-	-	38,182
Public Health Services	32	-	-	32
Leisure Time Activities	10,000	-	-	10,000
Transportation	-	54,838	-	54,838
General Government	108,144	-	-	108,144
Total Cash Disbursements	<u>156,358</u>	<u>54,838</u>	<u>-</u>	<u>211,196</u>
Excess of Receipts Over/(Under) Disbursements	35,550	24,404	-	59,954
Other Financing Receipts (Disbursements):				
Transfers-Out	(10,913)	(3,413)	(531)	(14,857)
Transfers-In	531	-	-	531
Total Other Financing Receipts (Disbursements)	<u>(10,382)</u>	<u>(3,413)</u>	<u>(531)</u>	<u>(14,326)</u>
Net Change in Fund Cash Balances	25,168	20,991	(531)	45,628
Fund Cash Balances, January 1	<u>328,004</u>	<u>36,273</u>	<u>531</u>	<u>364,808</u>
Fund Cash Balances, December 31				
Restricted	-	57,264	-	57,264
Unassigned	353,172	-	-	353,172
Fund Cash Balances, December 31	<u>\$ 353,172</u>	<u>\$ 57,264</u>	<u>\$ -</u>	<u>\$ 410,436</u>

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

VILLAGE OF PROSPECT
MARION COUNTY

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Proprietary Fund Types	
	Enterprise	
Operating Cash Receipts:		
Charges for Services	\$	1,388,477
Miscellaneous		3,237
		1,391,714
Total Operating Cash Receipts		1,391,714
Operating Cash Disbursements:		
Personal Services		224,145
Employee Fringe Benefits		124,429
Contractual Services		813,830
Supplies and Materials		63,465
Other		8,114
		1,233,983
Total Operating Cash Disbursements		1,233,983
Operating Income (Loss)		157,731
Non-Operating Receipts (Disbursements)		
Property and Other Local Taxes		27,974
Miscellaneous Receipts		30,880
Capital Outlay		(44,351)
Principal Retirement		(157,024)
Interest and Fiscal Charges		(24,744)
		(167,265)
Total Non-Operating Cash Receipts (Disbursements)		(167,265)
Income (Loss) before Transfers		(9,534)
Transfers Out		(6,826)
Transfers In		21,152
		4,792
Net Change in Fund Cash Balances		4,792
Fund Cash Balances, January 1		740,615
Fund Cash Balances, December 31	\$	745,407

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, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Prospect, Marion County, Ohio, (the Village) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides sewer, solid waste, and electric utilities, park operations (leisure time activities), and pool services. The Village contracts with the Marion County Sheriff's department to provide security of persons and property.

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

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

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

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

The Village's management believes these financial statements represent 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 accounts for and reports all financial resources not accounted for and reported in another fund.

2. Special Revenue Funds:

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

3. Debt Service Funds:

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

WWTJ Improvement Fund – This fund accounts for and reports financial resources that are restricted, committed or assigned to expenditures for principal and interest.

4. Enterprise Funds:

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

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

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

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (continued)

Sewer Fund – This fund receives charges for services from residents to cover the cost of providing sewer services.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

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 2017 budgetary activity appears in Note 3.

F. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Fund Balance (continued)

3. Committed

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

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

G. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS

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

	<u>2017</u>
Demand deposits	\$300,342
Certificates of deposit	<u>281,726</u>
Total deposits	<u>582,068</u>
STAR Ohio	<u>573,775</u>
Total deposits and investments:	<u>\$1,155,843</u>

Deposits: The Village's deposits are insured by the Federal Deposit Insurance Corporation, or collateralized by securities specifically pledged by the financial institution to the Village.

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

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2017, was as follows:

2017 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$154,499	\$192,439	\$38,395
Special Revenue	82,900	79,242	(3,658)
Enterprise	<u>1,306,620</u>	<u>1,471,720</u>	<u>164,645</u>
Total	<u>\$1,554,019</u>	<u>\$1,743,401</u>	<u>\$199,382</u>

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

3. BUDGETARY ACTIVITY (CONTINUED)

2017 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Disbursements</u>	<u>Variance</u>
General	\$489,399	\$167,271	\$322,128
Special Revenue	115,717	58,251	57,466
Enterprise	1,952,886	1,466,928	485,958
Debt Service	<u>531</u>	<u>531</u>	<u>0</u>
Total	<u>\$2,558,533</u>	<u>\$1,692,981</u>	<u>\$865,552</u>

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.

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

5. DEBT

Debt outstanding at December 31, 2017 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
OPWC Loan	\$145,188	0.00%
OWDA Loan	1,122,320	0.00%
AMP Ohio Payable – JV5	<u>55,047</u>	variable
Total	<u>\$1,322,555</u>	

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

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

Information regarding AMP Ohio Payable – JV5 is included in Note 8 to the financial statements. No amortization schedule is available for this loan.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

5. DEBT (CONTINUED)

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

Year Ending December 31:	OPWC Loan	OWDA Loans
2018	16,132	112,232
2019	16,132	112,232
2020	16,132	112,232
2021	16,132	112,232
2022	16,132	112,232
2023-2027	64,528	561,159
Totals	<u>\$145,188</u>	<u>\$1,122,320</u>

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 10% of gross wages. The Village contributed an amount equal to 14% of participants' gross wages. The Village has paid all contributions required through December 31, 2017.

7. RISK MANAGEMENT

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

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

The 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. 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 York. 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 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, 2017, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

7. RISK MANAGEMENT (CONTINUED)

Financial Position

PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017.

	2017
Assets	\$44,452,326
Liabilities	(13,004,011)
Net Position	\$31,448,315

At December 31, 2017 the liabilities above include approximately \$11.8 million of estimated incurred claims payable. The assets above also include approximately \$11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, the Government's share of these unpaid claims collectible in future years is approximately \$16,000.

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>2017</u>
\$25,052

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

8. JOINT VENTURES

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, 2017**

8. JOINT VENTURES (CONTINUED)

Also 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, 2017, Prospect has met its debt coverage obligation.

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

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The Village's net investment to date in OMEGA JV5 was \$8,067 at December 31, 2017. 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 PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

9. AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 1,088 kilowatts of a total 771,281 kilowatts, giving the Village an 0.14 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, payment of these costs was not made due to AMP's pursuit of legal action to void them. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share at March 31, 2014 of the impaired costs is \$188,603. The Village received a credit of \$58,030 related to their participation in the AMP Freemont Energy Center (AFEC) Project, and another credit of \$49,205 related to the AMPGS costs deemed to have future benefit for the project participants, classified as Plant Held for Future use (PHFU), leaving an estimated net impaired cost balance of \$81,368. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact, either positively or negatively, the Village's net impaired cost balance. These amounts will be recorded as they become estimable.

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the

participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014 the Village has made payments of \$46,756 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$1,894 and interest expense incurred on AMP's line-of-credit of \$1,650, resulting in a net impaired cost estimate at December 31, 2017 of \$38,156. The Village does have a potential PHFU Liability of \$50,609 resulting in a net total potential liability of \$88,765, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the Village's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such as negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

The Village intends to recover these costs and repay AMP over the next 7 years through a power cost adjustment.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

10. SEGMENT INFORMATION

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric Generation Agency (OMEGA) Joint Ventures as described in Note 8. The Village is liable for debt related to the financing of the OMEGA joint ventures. The activity is accounted for in the Village's Electric Fund, which is reported as part of the combined Enterprise Fund Type in the financial statements. Summary financial information for the Electric Fund is presented below:

	2017
Condensed Operating Information:	
Operating Receipts	
Charges for Services	944,109
Other Operating Receipts	3,237
Total Operating Receipts	947,346
Operating Expenses	962,960
Operating Income (Loss)	(15,614)
Nonoperating Receipts (Disbursements)	
Principal Payments	(36,726)
Interest Payments	(24,744)
Other Nonoperating Receipts (Disbursements)	(8,923)
Transfers	13,652
Change in Fund Cash Balance	(72,355)
Beginning Fund Cash Balance	250,614
Ending Fund Cash Balance	\$178,259

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017**

11. INTERFUND BALANCES

Outstanding advance at December 31, 2017, consisted of the following:

From	To	Amount
Electric Operating	General	\$ 28,295
Electric Operating	Street Construction	28,295
Electric Operating	Sewer Operating	28,295
Electric Operating	Solid Waste Operation	28,295
General	Swimming Pool	1,000
General	State Highway	3,000
	Total	\$ 117,180

During 2015 and 2016 the Village decided to build a new equipment building using the Electric Operating Funds instead of obtaining a bank loan. The Village had determined that the above funds should repay the Electric Operating Fund based on usage. Each of the funds are responsible for 12.5% of the construction cost to be paid back to the Electric Fund over a ten-year period.



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

Village of Prospect
Marion County
200 North East Street
Prospect, Ohio 43342

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts, and disbursements by fund type of the Village of Prospect, Marion County, (the Village) as of and for the years ended December 31, 2018 and 2017, and the related notes to the financial statements and have issued our report thereon dated August 23, 2019 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2018-001 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as items 2018-002.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "BHM CPA Group". The letters are cursive and somewhat stylized.

BHM CPA Group, Inc.
Piketon, Ohio
August 23, 2019

**Village of Prospect
Marion County
Schedule of Findings
December 31, 2018 and 2017**

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

Finding 2018-001

Material Weakness

Sound financial reporting is the responsibility of the fiscal officer and Village Council and is essential to ensure information provided to the readers of the financial statements is complete and accurate.

Material and immaterial misstatements were identified during the course of the audit which have not been prevented or detected by the Village's internal controls over financial reporting. Misstatements were identified in the following areas:

- Principal Payments expense,
- Interest and Fiscal Charges expense,
- Other Financing Uses,
- Miscellaneous Revenues,
- Sale of Capital Assets

All of the above noted adjustments have been posted to the financial statements and to the Village's UAN accounting system.

To ensure the Village's financial statements and notes to the financial statements are complete and accurate, we recommend the Fiscal Officer review the Ohio Village Officer's Handbook for guidance on the correct line item to post various receipts and expenditures of the Village.

Client Response: We did not receive a response from the client concerning the above finding.

Finding 2018-002

Material Non-compliance

GASB Cod. 1800.102 classifies "interfund loans" as exchange transactions, because they require repayment in an equal amount. Any advance must be clearly labeled as such, and must be distinguished from a transfer. In order to advance the cash from one fund to another;

- There must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established.
- The debtor fund may repay advances from the creditor fund. That is, the AOS would not deem repaying advances to violate restrictions on use of the debtor's fund resources.
- When a fund ends the year with negative cash, it is not appropriate to present an advance on the budgetary statement to eliminate the negative cash fund balance.
- An allowable advance should not violate restrictions on resource use.

**Village of Prospect
Marion County
Schedule of Findings
December 31, 2018 and 2017**

**Finding 2018-002
(Continued)**

Material Non-compliance

During 2015 and 2016 the Village constructed a new multipurpose building that would be used for housing various Village equipment. Instead of obtaining a bank loan for this project they elected to use the Electric Operating Fund's cash balance to finance the project. Ohio Revised Code (ORC) sections 731.56, 731.57 and 731.58 provide guidelines for the rules for issuance of manuscript or treasury debt investments. The Village did not comply with the requirements of these sections of the Ohio Revised Code in their financing of the construction of their new multipurpose building. The Village was using a ten-year period to repay the loan when if the debt was legal it would have only been issued for a five-year period. The Village also failed to obtain a legal opinion determining if this type of financing was legal under the Ohio Revised Code. Further, the Village failed to properly record these transactions within the UAN system nor were they able to provide us with any documentation that the Council authorized the Village to enter into such an agreement. The Village was not paying interest to the Electric Operating Fund contrary to the ORC.

The Village Administrator and Fiscal Officer should contact legal counsel to obtain an opinion concerning the legality of the financing agreement. Furthermore, Village should have a promissory note drafted and each fund receiving the advance should be charged the interest that these funds could have received while being invested on the open market. The Village also needs to take appropriate steps to produce documentation regarding each fund's use of the multipurpose building and ensure that repayments are made using the proper amounts.

Client Response: We did not receive a response from the client concerning the above finding.

**Village of Prospect
Marion County
Schedule of Prior Audit Findings
December 31, 2018 and 2017**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2016-001	Material Weakness – Financial Reporting	No	Reissued as 2018-001
2016-002	Material Noncompliance	No	Reissued as 2018-002

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OHIO AUDITOR OF STATE
KEITH FABER



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
OCTOBER 15, 2019**