



**Auditor of State
Betty Montgomery**

**VILLAGE OF CUSTAR
WOOD COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Custar
Wood County
8951 Custar Road
Custar, Ohio 43511-9701

To the Village Council:

We have audited the accompanying financial statements of the Village of Custar, Wood County, (the Village) as of and for the years ended December 31, 2003 and 2002. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments

We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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 as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the finance committee, management, Village Council, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 24, 2004

**VILLAGE OF CUSTAR
WOOD COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 21,071	\$ 1,772	\$ 22,843
Intergovernmental Receipts	11,640	8,528	20,168
Fines, Licenses, and Permits	155		155
Earnings on Investments	5,287	182	5,469
Miscellaneous	138		138
	<u>38,291</u>	<u>10,482</u>	<u>48,773</u>
Cash Disbursements:			
Current:			
Security of Persons and Property	992		992
Public Health Services	160		160
Leisure Time Activities	6,843		6,843
Community Environment	272		272
Basic Utility Services	208		208
Transportation		13,631	13,631
General Government	23,812		23,812
Capital Outlay	618	2,042	2,660
	<u>32,905</u>	<u>15,673</u>	<u>48,578</u>
Total Receipts Over/(Under) Disbursements	<u>5,386</u>	<u>(5,191)</u>	<u>195</u>
Other Financing Disbursements:			
Transfers-Out	<u>(7,850)</u>		<u>(7,850)</u>
Excess of Cash Disbursements and Other Financing Disbursements Over Cash Receipts	(2,464)	(5,191)	(7,655)
Fund Cash Balances, January 1	<u>26,614</u>	<u>42,656</u>	<u>69,270</u>
Fund Cash Balances, December 31	<u>\$ 24,150</u>	<u>\$ 37,465</u>	<u>\$ 61,615</u>
Reserves for Encumbrances, December 31	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF CUSTAR
WOOD COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 166,665
Operating Cash Disbursements:	
Personal Services	3,837
Fringe Benefits	499
Contractual Services	109,239
Supplies and Materials	36,473
Capital Outlay	2,830
Total Operating Cash Disbursements	152,878
Operating Income	13,787
Transfers-In	7,850
Net Receipts Over Disbursements	21,637
Fund Cash Balances, January 1	153,318
Fund Cash Balances, December 31	\$ 174,955
Reserve for Encumbrances, December 31	\$ 24,663

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property Tax and Other Local Taxes	\$ 21,504	\$ 1,955		\$ 23,459
Intergovernmental Receipts	7,176	7,364	\$ 33,396	47,936
Fines, Licenses, and Permits	235			235
Earnings on Investments	4,089	283		4,372
Miscellaneous	593			593
	33,597	9,602	33,396	76,595
Cash Disbursements:				
Current:				
Security of Persons and Property	1,395			1,395
Public Health Services	156			156
Leisure Time Activities	4,019			4,019
Community Environment	314			314
Basic Utility Services	208			208
Transportation		16,587		16,587
General Government	24,817	820		25,637
Capital Outlay	600	10,000	33,396	43,996
	31,509	27,407	33,396	92,312
Total Receipts Over/(Under) Disbursements	2,088	(17,805)		(15,717)
Other Financing Disbursements:				
Transfers-Out	(7,815)			(7,815)
Excess of Cash Disbursements and Other Financing Disbursements Over Cash Receipts	(5,727)	(17,805)		(23,532)
Fund Cash Balances, January 1	32,341	60,461		92,802
Fund Cash Balances, December 31	\$ 26,614	\$ 42,656		\$ 69,270
Reserves for Encumbrances, December 31	\$ -	\$ -	\$ -	\$ -

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF CUSTAR
WOOD COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 144,529
Operating Cash Disbursements:	
Personal Services	3,862
Fringe Benefits	159
Contractual Services	108,797
Supplies and Materials	41,211
Capital Outlay	914
Total Operating Cash Disbursements	154,943
Operating Loss	(10,414)
Transfers-In	7,815
Net Disbursements Over Receipts	(2,599)
Fund Cash Balances, January 1	155,917
Fund Cash Balances, December 31	\$ 153,318
Reserve for Encumbrances, December 31	\$ 21,563

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF CUSTAR
WOOD COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Custar, Wood County, (the Village) is a body corporate and politic 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 electric utilities and a park. The Village contracts with the Village of Weston to provide ambulance services.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized 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 prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost.

D. Fund Accounting

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

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

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

CSX Noise Fund - This fund received monies from a settlement from CSX Railroad for noise control.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Village had the following significant capital project fund:

Village Improvement Fund - This fund is used for major projects in the Village such as the France Street Project. The project is financed with Community Development Block Grant from the County.

4. Enterprise Funds

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

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(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 Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Village did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. 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.

2. EQUITY IN POOLED CASH

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

	2003	2002
Checking Account	\$ 164,464	\$ 153,469
Certificates of deposit	72,106	69,119
Total deposits	\$ 236,570	\$ 222,588

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

At December 31, 2002, \$123,594 of deposits were not insured or collateralized, contrary to Ohio law.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 29,812	\$ 38,291	\$ 8,479
Special Revenue	9,914	10,482	568
Enterprise	155,890	174,515	18,625
Total	\$ 195,616	\$ 223,288	\$ 27,672

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 63,037	\$ 40,755	\$ 22,282
Special Revenue	45,061	15,673	29,388
Enterprise	186,565	177,541	9,024
Total	\$ 294,663	\$ 233,969	\$ 60,694

**VILLAGE OF CUSTAR
WOOD COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 34,522	\$ 33,597	\$ (925)
Special Revenue	16,523	9,602	(6,921)
Capital Projects	-	33,396	33,396
Enterprise	162,072	152,344	(9,728)
Total	<u>\$ 213,117</u>	<u>\$ 228,939</u>	<u>\$ 15,822</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ -	\$ 39,324	\$ (39,324)
Special Revenue	-	27,407	(27,407)
Capital Projects	-	33,396	(33,396)
Enterprise	-	176,506	(176,506)
Total	<u>\$ -</u>	<u>\$ 276,633</u>	<u>\$ (276,633)</u>

4. COMPLIANCE

The Village did not approve permanent appropriations for 2002. As a result all 2002 expenditures exceeded appropriations.

Appropriations exceeded estimated resources in the following funds as of December 31, 2003:

Fund	Estimated Resources	Appropriations	Excess of Appropriations Over Estimated Resources
General Fund	\$ 44,604	\$ 63,037	\$ (18,433)
State Highway Improvement Fund	4,228	5,700	(1,472)
CSX Fund	-	19,816	(19,816)

Most of the Village's disbursements were not certified by the Clerk prior to the commitment being incurred, nor were they certified using a then-and-now certificate. In

**VILLAGE OF CUSTAR
WOOD COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

addition, the Village had \$24,663 and \$21,563 in outstanding purchase commitments at December 31, 2003 and 2002, respectively, that were not certified until 2004 and 2003.

In 2002 the Village was the beneficiary of \$33,396 of a Community Development Block Grant sent directly to the vendor by the Wood County. This activity was not recorded on the ledgers of the Village. These funds were also not appropriated causing expenditures to exceed appropriations in the Capital Project Fund by \$33,396.

The Village did not deposit the portion of tax on the kilowatt hours distributed to the end users located within the boundaries of the municipal corporation in the General Fund for 2003 and 2002.

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, 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.

6. RETIREMENT SYSTEMS

The Village's officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is cost-sharing, multiple-employer plans. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OPERS contributed 8.5 percent of their wages. The Village contributed an amount equal to

**VILLAGE OF CUSTAR
WOOD COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

13.55 percent of participants' gross salaries for 2003 and 2002. The Village has paid all contributions required through December 31, 2003.

7. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements, and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per claim, including loss adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$5,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$10,000,000 from the General Reinsurance Corporation.

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

Property Coverage

PEP retains property risks, including automobile physical damage, up to \$10,000 on any specific loss with an annual aggregate of \$1,250,000 for 2002. There is no aggregate for 2003 and future accident years. Beginning in 2003, PEP retains property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000. APEEP's Guarantee Fund pays losses and loss adjustment expenses exceeding operating contributions.

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

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, 2003 and 2002:

Casualty Coverage	2003	2002
Assets	\$ 25,288,098	\$ 20,174,977
Liabilities	(12,872,985)	(8,550,749)
Retained Earnings	\$ 12,415,113	\$ 11,624,228
Property Coverage	2003	2002
Assets	\$ 3,158,813	\$ 2,565,408
Liabilities	(792,061)	(655,318)
Retained Earnings	\$ 2,366,752	\$ 1,910,090

8. Ohio Municipal Electric Generation Agency Joint Venture (OMEGA JV2)

The Village of Custar is a Non-Financing Participant and an Owner Participant with an ownership percentage of 0% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

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

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and

**VILLAGE OF CUSTAR
WOOD COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The Village's net investment in OMEGA JV2 was \$0 at December 31, 2003. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the Village's Auditor.

Ohio Municipal Electric Generation Agency Joint Venture (OMEGA JV5)

The Village is a participant with forty-two other municipalities within the State of Ohio in a joint venture to construct a hydroelectric plant and associated transmission facilities in West Virginia on the Ohio River at the Belleville Locks and Dam and receive electric from its operation. The Ohio Municipal Electric Generation Agency Joint Venture 5 (Omega JV5) was created for that purpose. On the dissolution of the joint venture, the net assets of Omega JV5) will be shared by the participants on a percentage basis. The Omega JV5 is managed by AMP-Ohio who acts as the joint venture's agent. The participants are obligated by the agreement to remit monthly costs incurred from using electricity generated by the joint venture and a portion of the \$209,540,000 Certificate of Beneficial Interest debt that was issued to construct the fixed asset. In accordance with the joint venture agreement, the Village remitted \$10,098.11 and \$11,317.09 for 2003 and 2002 respectively to the joint venture. Village's net investment and its share of the operating results of Omega JV5 ownership share of the project is .06 percent. Complete financial statements for Omega JV5 can be obtained from AMP-Ohio at 2600 Airport Drive, Columbus, Ohio 43219, or from the Village clerk.

AMP-Ohio

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

AMP-Ohio is governed by a Board of Trustees consisting of sixteen members. Each member designates its own representative to the Board of Trustees. Eight of the trustee members are selected by their fellow AMP-Ohio members in each of the services groups. The other eight Board members are elected at large. The main source of revenues is from the sale of electric power. The Village remitted \$98,301.09 and \$95,384.57 for 2003 and 2002 respectively to the AMP-Ohio.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Village of Custar
Wood County
8951 Custar Road
Custar, Ohio 43511-9701

To the Village Council:

We have audited the financial statements of the Village of Custar, Wood County, (the Village) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated August 24, 2004 wherein we noted that the Village's financial transactions were processed using the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to conduct the audit of the Village because the Auditor of State designed, developed, implemented, and, as requested, operates UAN. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 such an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2003-001 through 2003-006. We also noted certain immaterial instances of noncompliance that we have reported to the Village's management in a separate letter dated August 24, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to the Village's management in a separate letter dated August 24, 2004.

This report is intended solely for the information and use of the finance committee, management, and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

August 24, 2004

**VILLAGE OF CUSTAR
WOOD COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Revised Code § 135.18 states the treasurer of a political subdivision must require the depository to provide as security an amount equal to the funds on deposit at all times. Such security may consist of federal deposit insurance, surety company bonds, or pledged securities.

At December 31, 2002 the Village had \$123,594 in deposits that were uninsured and uncollateralized. We recommend the Village monitor deposits and require the bank to provide additional securities prior to making deposits which would exceed the depository insurance and collateral on hand.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.38 states on or about the first day of each fiscal year, an appropriation measure is to be passed. If the taxing authority wants to postpone the passage of the annual appropriation measure until an amended certificate is received from the county budget commission based upon the actual year end balances, it may pass a temporary appropriation measure for meeting the ordinary expenses until April 1 of the current year.

The Village did not approve permanent appropriations for 2002. As a result all 2002 expenditures exceeded appropriations contrary to Ohio Revised Code §5705.41(B) which prohibits a subdivision from making an expenditure unless it has been lawfully appropriated. The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

FINDING NUMBER 2003-003

Noncompliance Citation

Ohio Revised Code § 5705.39 state the total appropriations from each fund should not exceed the total estimated revenue. No appropriation measure is to become effective until the county auditor files a certificate that the total appropriations from each fund do not exceed the total official estimate or amended official estimate.

Appropriations exceeded estimated resources in the following funds as of December 31, 2003:

Fund	Estimated Resources	Appropriations	Excess of Appropriations Over Estimated Resources
General Fund	\$ 44,604	\$ 63,037	\$ (18,433)
State Highway Improvement Fund	4,228	5,700	(1,472)
CSX Fund		19,816	(19,816)

We recommend prior to approving appropriations, Council ensure the planned appropriations will not exceed the estimated resources and if necessary reduce the planned appropriations or obtain an amended certificate of estimated resources.

FINDING NUMBER 2003-004

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states that no subdivision or taxing unit shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification should be considered null and void.

This section also provides two exceptions to the above requirements:

- A. Then and Now Certificate - if no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the purchase order or contract and at the time of the certificate, appropriated and free of any previous encumbrance, the Village Council may authorize the issuance of a check in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1000 (\$3000 effective April 2003), the fiscal officer may authorize it to be paid without the affirmation of the Village Council, if such expenditure is otherwise valid.

Sixty-six percent of the transactions tested were not certified by the Clerk prior to the commitment being incurred, nor were they certified using a then-and-now certification. In addition, the Village had \$24,663 and \$21,563 in outstanding purchase commitments at December 31, 2003 and 2002, respectively, that were not certified until 2004 and 2003. The accompanying financial statements have been adjusted to include these amounts as outstanding encumbrances at year end, in the Enterprise Fund.

Certification is not only required by Ohio law but is a key control in the disbursements process to assure purchase commitments receive prior approval, and to help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by the Council. To improve controls over disbursements, we recommend all Village disbursements received prior certification of the Clerk and Council periodically review the expenditures made to ensure they are within the appropriations adopted by the Council, certified by the Clerk and recorded against appropriations. In addition, we recommend all purchase commitments be certified and encumbered in the year the commitment occurs.

FINDING NUMBER 2003-005

Noncompliance Citation

Ohio Revised Code § 5705.42 states when the United States government of the state or any department, division, agency authority or unit thereof makes a grant or loan of money to any political subdivision of the state to aid in paying the cost of any program, activity or function of such subdivision, or enters into an agreement with the subdivision for the making of any such grant or loan of money, the amount thereof is deemed appropriated for such purposes by the taxing authority of such subdivision as provided by law and shall be recorded as such by the fiscal officer of the subdivision, and is deemed in the process of collection within the meaning of §5705.41, of the Ohio Revised Code.

In 2002 the Village was the beneficiary of \$33,396 of a Community Development Block Grant sent directly to the vendor by the Wood County. This activity was not recorded on the ledgers of the Village. Since Wood County paid the invoices, the Village did not receive this cash. However, Auditor of State Bulletin 2000-08 prescribes recording these transactions as receipts and disbursements when the Village applies for a project and has administrative responsibilities. The accompanying financial statements were adjusted to reflect the amount in a Capital Project Fund. These funds were not appropriated causing expenditures to exceed appropriations in the Capital Project Fund by \$33,396, contrary to Ohio Revised Code § 5705.41(B) which requires all expenditures to be appropriated.

**FINDING NUMBER 2003-005
(Continued)**

We recommend the Village record all benefits received from state or federal grants as a memo receipt and expenditure on the Village's records, request an amended certificate of estimated resources for these funds and Council approve a corresponding appropriation for the expenditure. In addition, Village management should review Auditor of State Bulletin 2000-08.

FINDING NUMBER 2003-006

Noncompliance Citation

Ohio Revised Code § 5727.82(A)(3) states if the electric distribution company required to pay the tax imposed by section 5727.81 of the Revised Code is a municipal electric utility, it may retain in its general fund that portion of the tax on the kilowatt hours distributed to end users located within the boundaries of the municipal corporation. However, the municipal electric utility shall make payment in accordance with division (A)(1) of this section of the tax due on the kilowatt hours distributed to end users located outside the boundaries of the municipal corporation.

The Village did not deposit the portion of tax on the kilowatt hours distributed to the end users located within the boundaries of the municipal corporation in the General Fund for 2003 and 2002. These funds were deposited in the Electric Fund. The Village should have put \$7,850 and 7,815 into local taxes in the General Fund and then transferred it back to the Electric Fund as their ordinance requires. The accompanying financial statements have been adjusted to show these amounts as tax revenues and transfer out in the General Fund and transfer in to the Electric Fund. We recommend the Village calculate how much tax should be collected from the end users inside the Village boundaries and record this amount in the General Fund and then transfer the amounts to the Electric Fund as required by Village ordinance.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-30187-001	ORC § 135.18 Uninsured and uncollateralized deposits.	No	This finding was not been corrected for 2002 and is repeated in this report as finding 2003-001.
2001-30187-002	ORC § 5705.41(D) Certification of funds	No	This finding has not been corrected and is repeated in this report as finding 2003-004.
2001-30269-003	ORC § 5705.38 approving appropriations	No	This finding has not been corrected and is repeated in this report as finding 2003-002.
2001-30269-004	ORC § 5705.36 Certifying amounts available for expenditures and balances.	No	Partially corrected. Reported as a management letter comment.
2001-30269-005	ORC § 5727.82(A)(3) Electric distribution tax	No	This finding has not been corrected and is repeated in this report as finding 2003-006.



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VILLAGE OF CUSTAR

WOOD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 14, 2004**