

VILLAGE OF PROSPECT

MARION COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004-2003



**Auditor of State
Betty Montgomery**

Village Council
Village of Prospect
P.O. Box 186
Prospect, OH 43342

We have reviewed the *Independent Accountants' Report* of the Village of Prospect, Marion County, prepared by Knox & Knox CPAs, for the audit period January 1, 2003 through December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

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

BETTY MONTGOMERY
Auditor of State

February 22, 2006

This Page is Intentionally Left Blank.

**VILLAGE OF PROSPECT
MARION COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants Report.....	1
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances All Governmental Fund Types For the Year Ended December 31, 2004.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances Proprietary Fund Type - For the Year Ended December 31, 2004.....	4
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances All Governmental Fund Types For the Year Ended December 31, 2003.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances Proprietary Fund Type - For the Year Ended December 31, 2003	6
Notes to the Financial Statements.....	7
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	13
Schedule of Audit Findings.....	14
Schedule of Prior Audit Findings.....	15

This page intentionally left blank.

KNOX & KNOX

Accountants and Consultants

Independent Accountants' Report

Village of Prospect
Marion County
139 North Main Street
Prospect, Ohio 43342-0186

To the Village Council:

We have audited the accompanying financial statements of the Village of Prospect, Marion County, Ohio, (the Village) as of and for the years ended December 31, 2004 and 2003. These financial statements, which are prescribed or permitted by the Auditor of the State of Ohio, 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 reasonably assure 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, if any, made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e., major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of the State of Ohio permits, but does not require, governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Prospect, Marion County, as of December 31, 2004 and 2003, and its combined cash receipts and disbursements and reserves for encumbrances for the years then ended on the basis of accounting described in Note 1.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2005, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

KNOX & KNOX

Orrville, Ohio
December 20, 2005

**VILLAGE OF PROSPECT
MARION COUNTY**

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

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	
Cash Receipts:				
Local Taxes	\$ 56,927	\$ 34,331	\$	\$ 91,258
Intergovernmental	68,799	42,758		111,557
Licenses, Permits, and Fees	7,125	0		7,125
Earnings on Investments	13,745	351		14,096
Miscellaneous	<u>9,422</u>	<u>65</u>	<u> </u>	<u>9,487</u>
Total Cash Receipts	<u>156,018</u>	<u>77,505</u>	<u> </u>	<u>233,523</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	43,961			43,961
Public Health Services	6,067			6,067
Transportation		62,926		62,926
General Government	63,296			63,296
Debt Service				
Principal Payments			297,708	297,708
Interest Payments	<u> </u>	<u> </u>	<u>7,210</u>	<u>7,210</u>
Total Cash Disbursements	<u>113,324</u>	<u>62,926</u>	<u>304,918</u>	<u>481,168</u>
Total Receipts Over(Under) Disbursements	<u>42,694</u>	<u>14,579</u>	<u><304,918></u>	<u><247,645></u>
Other Financing Receipts/(Disbursements):				
Sale of Notes			180,000	180,000
Transfers In			99,592	99,592
Transfers Out	<10,000>			<10,000>
Other Uses	<u><10,200></u>	<u> </u>	<u> </u>	<u><10,200></u>
Total Other Financing Receipts /(Disbursements)	<u><20,200></u>	<u> </u>	<u>279,592</u>	<u>259,392</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	22,494	14,579	<25,326>	11,747
Fund Cash Balances, January 31	<u>115,465</u>	<u>22,880</u>	<u>63,197</u>	<u>201,542</u>
Fund Cash Balances, December 31	<u>\$ 137,959</u>	<u>\$ 37,459</u>	<u>\$ 37,871</u>	<u>\$213,289</u>
Reserves for Encumbrances, December 31	<u>\$ 3,301</u>	<u>\$ 4,810</u>	<u>\$</u>	<u>\$ 8,111</u>

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

**VILLAGE OF PROSPECT
MARION COUNTY**

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

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$ 1,084,087
Miscellaneous	<u>18,340</u>
Total Operating Cash Receipts	1,102,427
Operating Cash Disbursements:	
Personal Services	227,999
Fringe Benefits	112,468
Contractual Services	530,296
Supplies and Materials	50,460
Other	2,574
Capital Outlay	9,942
Total Operating Cash Disbursements	<u>933,739</u>
Operating Income	168,688
Non-Operating Cash Receipts (Disbursements):	
Transfers-In	10,000
Transfers-Out	<u><99,592></u>
Total Non-Operating Cash Receipts/(Disbursements)	<u><89,592></u>
Net Receipts Under Disbursements	79,096
Fund Cash Balances, January 1	<u>983,035</u>
Fund Cash Balances, December 31	<u>\$1,062,131</u>
Reserve for Encumbrances, December 31	<u>\$ 7,371</u>

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

**VILLAGE OF PROSPECT
MARION COUNTY**

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

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Total (Memorandum Only)
Cash Receipts:				
Local Taxes	\$ 54,504	\$ 32,697	\$	\$ 87,201
Intergovernmental Receipts	73,925	39,634		113,559
Licenses, Permits, and Fees	14,251			14,251
Earnings on Investments	13,266	188		13,454
Miscellaneous	<u>7,461</u>	<u>35</u>	<u>51,123</u>	<u>58,619</u>
Total Cash Receipts	<u>163,407</u>	<u>72,554</u>	<u>51,123</u>	<u>287,084</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	35,018			35,018
Public Health Services	6,222			6,222
Transportation		117,745		117,745
General Government	83,719			83,719
Debt Service				
Principal Payments			357,391	357,391
Interest Payments			<u>15,801</u>	<u>15,801</u>
Total Cash Disbursements	<u>124,959</u>	<u>117,745</u>	<u>373,192</u>	<u>615,896</u>
Total Receipts Over(Under) Disbursements	<u>38,448</u>	<u><45,191></u>	<u><322,069></u>	<u><328,812></u>
Other Financing Receipts/(Disbursements):				
Sale of Notes			240,000	240,000
Transfers -In		52,500	52,507	105,007
Transfers-Out	<u><77,500</u>			<u><77,500></u>
Total Other Financing Receipts /(Disbursements)	<u><77,500></u>	<u>52,500</u>	<u>292,507</u>	<u>267,507</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	<u><39,052></u>	7,309	<u><29,562></u>	<u><61,305></u>
Fund Cash Balances, January 31	<u>154,517</u>	<u>15,571</u>	<u>92,759</u>	<u>262,847</u>
Fund Cash Balances, December 31	<u>\$ 115,465</u>	<u>\$ 22,880</u>	<u>\$ 63,197</u>	<u>\$201,542</u>
Reserves for Encumbrances, December 31	<u>\$ 1,188</u>	<u>\$ 612</u>	<u>\$</u>	<u>\$ 1,800</u>

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

**VILLAGE OF PROSPECT
MARION COUNTY**

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

	<u>Enterprise</u>
Operating Cash Receipts:	
Charges for Services	\$ 964,815
Miscellaneous	<u>15,599</u>
Total Operating Cash Receipts	<u>980,414</u>
Operating Cash Disbursements:	
Personal Services	221,146
Fringe Benefits	101,069
Contractual Services	522,657
Supplies and Materials	48,076
Other	3,614
Capital Outlay	<u>6,901</u>
Total Operating Cash Disbursements	<u>903,463</u>
Non-Operating Cash Receipts/(Disbursements):	
Transfers-In	25,000
Transfers-Out	<u><52,507></u>
Total Non-Operating Cash Receipts/(Disbursements)	<u><27,507></u>
Net Receipts Over Disbursements	49,444
Fund Cash Balances, January 1	<u>933,591</u>
Fund Cash Balances, December 31	<u>\$ 983,035</u>
Reserve for Encumbrances, December 31	<u>\$ 6,847</u>

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

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Prospect, Marion County, Ohio (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 and sewer utilities and park operations. The Village contracts with the Marion County Sheriff's Department to provide security of persons and property.

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 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.

The investment in STAR Ohio is recorded at share values reported by the State Treasurer.

D. Fund Accounting

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

1. General Fund

The General Fund 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 Funds

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 has the following significant Special Revenue Funds:

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

VILLAGE OF PROSPECT
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Permissive Motor Vehicle License Fund - This fund receives gasoline tax and motor vehicle tax money to pay for constructing, maintaining and repairing Village streets.

3. Debt Service Fund

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village has the following debt service fund:

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

4. Enterprise Funds

These funds account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered 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 this utility

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriation to the fund, function or object level of control, and appropriations may not exceed estimated resources. The Council must annually approve the appropriation measure 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.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003)
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

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 2004 and 2003 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 AND INVESTMENTS

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

	<u>2004</u>	<u>2003</u>
Deposits	\$ 69,395	\$ 47,085
STAR Ohio	<u>1,206,025</u>	<u>1,137,492</u>
Total deposits and investments	<u>\$1,275,420</u>	<u>\$ 1,184,577</u>

Deposits: Deposits are insured by the Federal Depository 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 ended December 31, 2004 and 2003 follows:

	2004 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$ 151,450	\$ 156,018	\$ 4,568
Special Revenue	60,102	77,505	17,403
Debt Service	110,000	279,592	169,592
Enterprise	<u>900,186</u>	<u>1,112,427</u>	<u>212,241</u>
Total	<u>\$1,221,738</u>	<u>\$1,625,542</u>	<u>\$403,804</u>

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

3. BUDGETARY ACTIVITY (Continued)

2004 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 267,800	\$ 136,825	\$ 130,975
Special Revenue	83,594	67,736	15,858
Debt Service	353,197	304,918	48,279
Enterprise	<u>1,895,623</u>	<u>1,040,702</u>	<u>854,921</u>
Total	<u>\$2,600,214</u>	<u>\$ 1,550,181</u>	<u>\$1,050,033</u>

2003 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 164,637	\$ 163,407	<1,230>
Special Revenue	117,625	125,054	7,429
Debt Service	311,500	343,630	32,130
Enterprise	<u>926,022</u>	<u>1,005,414</u>	<u>79,392</u>
Total	<u>\$ 1,519,784</u>	<u>\$1,637,505</u>	<u>\$ 117,721</u>

2003 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 322,114	\$203,647	\$118,467
Special Revenue	131,828	118,357	13,471
Debt Service	404,259	373,192	31,067
Enterprise	<u>1,863,085</u>	<u>962,817</u>	<u>900,268</u>
Total	<u>\$2,721,286</u>	<u>\$ 1,658,013</u>	<u>\$1,063,273</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the 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.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

5. DEBT

Debt outstanding at December 31, 2004 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
AMP-Ohio Bond Anticipation note	\$133,150	1.4%
Waste Water Treatment Plant Bond Anticipation Note	180,000	1.65%
Total	<u>\$313,150</u>	

The AMP-Ohio Bond Anticipation Note relates to the acquisition and installation of a backup power generator. Revenue of the utility facilities has been pledged to repay this debt.

The Waste Water Treatment Plant Bond Anticipation Note was obtained to finance sewer system improvements. Revenue of the utility facilities has been pledged to repay this debt.

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

Year Ending December 31	AMP-Ohio Bond Anticipation Notes		Waste Water Treatment Plant Bond Anticipation Notes	
	Principal	Interest	Principal	Interest
2005	\$133,150	\$ 1,864	\$180,000	\$ 2,970

6. RETIREMENT SYSTEM

The Village's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provide 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 2004 and 2003, PERS members contributed 8.5% of their gross salaries. The Village contributed an amount equal to 13.55% of participants' gross salaries for 2004 and 2003.

7. RISK MANAGEMENT

Risk Pool Membership

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

Casualty Coverage

PEP retains casualty risks, up to \$250,000 per 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

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

7. RISK MANAGEMENT (Continued)

Casualty Coverage (Continued)

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 \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsures losses exceeding \$100,000 up to \$500,000,000 per occurrence. 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 local government.

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:

<u>Casualty Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$30,547,049	\$25,288,098
Liabilities	(16,989,918)	(12,872,985)
Retained Earnings	<u>\$13,557,131</u>	<u>\$12,415,113</u>

<u>Property Coverage</u>	<u>2004</u>	<u>2003</u>
Assets	\$3,652,970	\$3,158,813
Liabilities	(544,771)	(792,061)
Retained Earnings	<u>\$3,108,199</u>	<u>\$2,366,752</u>

KNOX & KNOX

Accountants and Consultants

INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Village of Prospect
Marion County
139 N. Main Street
Prospect, OH 43342-0186

To the Village Council:

We have audited the accompanying financial statements of the Village of Prospect, Marion County, Ohio, (the Village) as of and for the years ended December 31, 2004 and December 31, 2003, and have issued our report thereon dated December 20, 2005. 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 have a direct and material effect on 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2004- 01.

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 over financial reporting 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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Village in a separate letter dated December 20, 2005.

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

KNOX & KNOX

Orrville, Ohio
December 20, 2005

**VILLAGE OF PROSPECT
MARION COUNTY
SCHEDULE OF FINDINGS
DECEMBER 31, 2004 AND 2003**

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

FINDING NUMBER 2004-01

Non-Compliance Citation

Ohio Revised Code Section 5705.39 requires that total appropriations not exceed total estimated revenue available for expenditure.

Appropriations exceeded total estimated resources as follows:

<u>Year</u>	<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Variance</u>
2004	General	\$ 266,915	\$ 267,800	\$ 885
2004	Special	\$ 82,982	\$ 83,594	\$ 612
2004	Debt Service	\$ 173,197	\$ 353,197	\$180,000
2004	Enterprise	\$ 1,883,221	\$1,895,623	\$ 12,402
2003	General	\$ 319,154	\$ 322,114	\$ 2,960
2003	Enterprise	\$ 1,859,613	\$1,863,085	\$ 3,472

VILLAGE OF PROSPECT
MARION COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004 AND 2003

Finding Number	Finding Summary	Fully Corrected	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid: Explain:
2002-001	Ohio Revised Code Section 5705.41 (D) Certification of Expenditures	yes	



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

VILLAGE OF 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
MARCH 07, 2006**