



**VILLAGE OF CUSTAR
WOOD COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006



Mary Taylor, CPA
Auditor of State

VILLAGE OF CUSTAR
WOOD COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Cover Letter	1
Independent Accountants' Report.....	3
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2006.....	5
Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balance – Enterprise Fund - For the Year Ended December 31, 2006.....	6
Notes to the Financial Statements	7
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings.....	19
Schedule of Prior Audit Findings	22

This page intentionally left blank.



Mary Taylor, CPA
Auditor of State

Village of Custar
Wood County
PO Box 137
Custar, Ohio 43511-0137

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 24, 2007

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Custar
Wood County
PO Box 137
Custar, Ohio 43511-0137

To the Village Council:

We have audited the accompanying financial statements of Village of Custar, Wood County, (the Village) as of and for the year ended December 31, 2006. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Village processes its financial transactions with the Auditor of State's Uniform Accounting Network (UAN). *Government Auditing Standards* considers this service to impair the independence of the Auditor of State to audit the Village because the Auditor of State designed, developed, implemented, and as requested, operates UAN. However, *Government Auditing Standards* permits the Auditor of State to audit and opine on this entity, because Ohio Revised Code § 117.101 requires the Auditor of State to provide UAN services, and Ohio Revised Code §§ 117.11(B) and 115.56 mandate the Auditor of State to audit Ohio governments. We believe our audit provides a reasonable basis for our opinion.

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

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

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2006, 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, 2006, 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 and reserves for encumbrances of Village of Custar, Wood County, as of December 31, 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2007, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Mary Taylor, CPA
Auditor of State

August 24, 2007

**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, 2006**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$22,820			\$22,820
Intergovernmental	36,067	\$11,235	\$731,462	778,764
Special Assessments	878		1,850	2,728
Charges for Services	208			208
Fines, Licenses and Permits	85			85
Earnings on Investments	1,625	311		1,936
Miscellaneous	969			969
Total Cash Receipts	62,652	11,546	733,312	807,510
Cash Disbursements:				
Current:				
Security of Persons and Property	950			950
Public Health Services	208			208
Leisure Time Activities	1,905			1,905
Community Environment	109			109
Transportation		6,048		6,048
General Government	29,988			29,988
Debt Service:				
Redemption of Principal			20,000	20,000
Capital Outlay	50		1,393,305	1,393,355
Total Cash Disbursements	33,210	6,048	1,413,305	1,452,563
Total Cash Receipts Over/(Under) Cash Disbursements	29,442	5,498	(679,993)	(645,053)
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Sale of Notes			669,843	669,843
Sale of Fixed Assets	5,739			5,739
Transfers-Out	(8,858)			(8,858)
Other Financing Uses	(26)			(26)
Total Other Financing Receipts / (Disbursements)	(3,145)		669,843	666,698
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	26,297	5,498	(10,150)	21,645
Fund Cash Balances, January 1	23,832	37,433	12,000	73,265
Fund Cash Balances, December 31	\$50,129	\$42,931	\$1,850	\$94,910
Reserve for Encumbrances, December 31	\$4,098	\$4	\$178,032	\$182,134

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCE - ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$235,115
Operating Cash Disbursements:	
Personal Services	3,525
Employee Fringe Benefits	381
Contractual Services	151,624
Supplies and Materials	23,223
Claims	
Other	1,050
Total Operating Cash Disbursements	179,803
Operating Income	55,312
Non-Operating Cash Disbursements:	
Capital Outlay	50
Excess of Cash Receipts Over Cash Disbursements Before Interfund Transfers	55,262
Transfers-In	8,858
Net Cash Receipts Over Cash Disbursements	64,120
Fund Cash Balance, January 1	212,095
Fund Cash Balances, December 31	\$276,215
Reserve for Encumbrances, December 31	\$18,279

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, 2006**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Custar, Wood County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides electric utilities and a park. The Village contracts with Village of Weston to provide ambulance services.

The Village participates in one jointly governed organization and Public Entities Pool of Ohio a public entity risk pool. Notes 8, 9, 10 and 11 to the financial statements provides additional information for these entities. These organizations are:

Amp Ohio:

Amp Ohio provides electric utilities to the Village.

Public Entity Risk Pool:

Ohio Entities Pool of Ohio is available to public entities in Ohio. PEP provides property and casualty coverage for its members.

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

B. Accounting Basis

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

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

C. Cash and Investments

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

The Village values certificates of deposit at cost

D. Fund Accounting

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

1. General Fund

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

2. Special Revenue Funds

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

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

3. Capital Project Funds

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

Water and Sewer Improvement Fund – This fund receives proceeds of OPWC and CDBG. The proceeds are being used for a sewer project.

Sewer Capital Loan Fund – This fund receives proceeds from OWDA. The proceeds are being used for a sewer project.

4. Enterprise Funds

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

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

2. Estimated Resources

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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. The Village did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2006 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

2. EQUITY IN POOLED CASH

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

	2006
Demand deposits	\$285,961
Certificates of deposit	85,164
Total deposits	\$371,125

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

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2006 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$31,584	\$68,391	\$36,807
Special Revenue	11,460	11,546	86
Capital Projects	1,496,421	1,403,155	(93,266)
Enterprise	232,300	243,973	11,673
Total	\$1,771,765	\$1,727,065	(\$44,700)

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

3. BUDGETARY ACTIVITY – (CONTINUED)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$70,568	\$46,192	\$24,376
Special Revenue	9,962	6,052	3,910
Capital Projects	1,506,571	1,591,337	(84,766)
Enterprise	250,018	198,132	51,886
Total	\$1,837,119	\$1,841,713	(\$4,594)

4. COMPLIANCE

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 2006. The Ohio Revised Code requires this deposit. The financial statements were adjusted to reflect this deposit properly.

5. PROPERTY TAX

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

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

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

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

6. DEBT

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
General Obligation Notes	\$669,844	1.5%

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

6. DEBT – (CONTINUED)

The Ohio Water Development Authority (OWDA) loan relates to a sewer project the Ohio Environmental Protection Agency mandated. The OWDA approved up to \$804,572 in loans to the Village for this project. The Village will repay over 30 years. The OWDA will prepare a payment schedule upon completion of the project based on the amount the Village actually borrows. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

7. RETIREMENT SYSTEM

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

The Ohio Revised Code also prescribes contribution rates. For 2006 OPERS members contributed 9% of their gross salaries and the Village contributed an amount equaling 13.7% of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

8. RISK MANAGEMENT

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

The Government 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. 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

For an occurrence prior to January 1, 2006 PEP retains casualty risks up to \$250,000 per occurrence, including claim 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 \$10,000,000 in the aggregate per year. For an occurrence on or subsequent to January 1, 2006, the Pool retains casualty risk up to \$350,000 per occurrence, including loss adjustment expenses. Claims exceeding \$350,000 are reinsured with APEEP in an amount not to exceed \$2,650,000 for each claim and \$10,000,000 in the aggregate per year. Governments can elect up to \$10,000,000 in additional coverage with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP's retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000 (for claims prior to January 1, 2006) or \$3,000,000 (for claims on or after January 1, 2006) as noted above.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members' total insurable values. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2006 was \$1,901,127.

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 government.

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

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, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	<u>(15,875,741)</u>	<u>(15,994,168)</u>
Retained earnings	<u>\$15,122,127</u>	<u>\$13,725,507</u>

<u>Property Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$5,125,326	\$4,443,332
Liabilities	<u>(863,163)</u>	<u>(1,068,245)</u>
Retained earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

8. RISK MANAGEMENT – (CONTINUED)

At December 31, 2006 and 2005, respectively, casualty coverage liabilities noted above include approximately \$14.4 million and \$14.3 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.4 million and \$14.3 million of unpaid claims to be billed to approximately 447 member governments in the future, as of December 31, 2006 and 2005, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Government's share of these unpaid claims collectible in future years is approximately \$8,000. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

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.

Contributions to PEP

2004	\$3,754
2005	\$3,645
2006	\$3,829

9. OHIO MUNICIPAL ELECTRIC GENERATION AGENCY VENTURE (OMEGA JV2)

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

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

**9. OHIO MUNICIPAL ELECTRIC GENERATION AGENCY VENTURE (OMEGA JV2) –
(CONTINUED)**

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-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 \$1,250 at December 31, 2006. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2006 are:

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

10. OHIO MUNICIPAL ELECTRIC GENERATION AGENCY VENTURE (OMEGA JV5)

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

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

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

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2006 Custar has met their debt coverage obligation.

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

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The Village's net investment to date in OMEGA JV5 was \$6,482 at December 31, 2006. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006
(Continued)**

11. 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 \$129,786 for 2006 to the AMP-Ohio.

12. OUTSTANDING CONTRACTS

The Village is in the process of constructing sewer lines. Outstanding contracts in the amount of \$181,864 existed at December 31, 2006.



Mary Taylor, CPA

Auditor of State

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

Village of Custar
Wood County
PO Box 137
Custar, Ohio 43511-0137

To the Village Council:

We have audited the financial statements of the Village of Custar, Wood County, (the Village) as of and for the year ended December 31, 2006, and have issued our report thereon dated August 24, 2007, wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We also noted the Village uses the Auditor of State's Uniform Accounting Network (UAN) to process its financial transactions. *Government Auditing Standards* considers this service to impair the Auditor of State's independence to audit the Village. 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 conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-002 and 2006-004.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, of the significant deficiencies described above, we believe finding number 2006-004 is also a material weakness.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated August 24, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards* which are described in the accompanying schedule of finding as items 2006-001 and 2006-002.

We did note certain noncompliance or other matters that we reported to the Village's management in a separate letter dated August 24, 2007.

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



Mary Taylor, CPA
Auditor of State

August 24, 2007

VILLAGE OF CUSTAR
WOOD COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006

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

FINDING NUMBER 2006-001

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 2006. These funds were deposited in the Electric Fund. The Village should have put \$8,858 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 this amount 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.

Officials Response:

No response was received.

FINDING NUMBER 2006-002

Noncompliance/Significant Deficiency

Ohio Revised Code § 5705.41(D) (1), states that no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract 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 encumbrances. Every such contract made without such a certificate shall void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

"Then and Now" certificate – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Commissioners can authorize the drawing of a warrant for the payment of the amount due. The Commissioners has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

**FINDING NUMBER 2006-002
(Continued)**

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by Council.

Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – Council may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

Twenty-two percent of the transactions tested, were not certified by the fiscal officer at the time the commitment was incurred, and there was no evidence that the Council followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

The Village had \$3,910 and \$18,184 in outstanding purchase commitments at December 31, 2006, in the General Fund and Enterprise Fund respectively. The accompanying financial statements have been adjusted to include these amounts as outstanding encumbrances at year end in the General and Enterprise Funds.

Certification is not only required by Ohio law, but is a key control in the disbursements process to help 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 Council.

To improve controls over disbursements, we recommend all Village disbursements receive prior certification of the Fiscal Officer and Council periodically review the expenditures made to ensure they are within the appropriations adopted by Council, certified by the Fiscal Officer, and recorded against appropriations.

Officials Response:

No response was received.

FINDING NUMBER 2006-003

Significant Deficiency

Electric Utility Billing and Collections

During testing of the electric billings and collections we noted the following deficiencies:

- No reconciliation is performed between the cash collections per the utility records to cash receipts posted in the cash journal and deposited in the bank.
- Review of delinquent accounts report is not performed.

**FINDING NUMBER 2006-003
(Continued)**

These deficiencies could result in misposting of receipts and billings not being collected on a timely basis or not collected at all. To strengthen controls and accountability over the billing and collection of electric revenue we recommend:

- Board of Public Affairs should perform monitoring procedures over the electric billing and collection procedures.
- Monthly reconciliations should be performed between the utility billing reports, receipts ledger, delinquency report, and deposits to the bank and these reconciliation should be reviewed by the Board of Public Affairs and presented to Council.

Officials Response:

No response was received.

FINDING NUMBER 2006-004

Material Weakness

Financial Reporting

As a result of the audit procedures performed, the following errors were noted in the financial statements that required audit adjustments.

1. Gas tax revenue in the amount of \$589 was credited to the State Highway fund that was due the Street Construction, Maintenance and Repair fund.
2. The Village Board of Public Affairs maintained a separate bank account with a balance of \$20,797 at December 31, 2006, which was not reported as part of the financial statements. The accompanying financial statements have been adjusted to show this amount as Charges for Services in the Electric Fund.
3. OWDA debt proceeds and expenditures of \$27,011 were not reported. The accompanying financial statements have been adjusted to show this amount as Note Proceeds and Principal Payment and Capital Outlay in the Capital Projects Fund for the sewer project.
4. OPWC Intergovernmental receipt of \$481,463 was classified as Other Financing Sources and \$57,755 required reporting as Intergovernmental revenue and Capital Outlay expenditure in the Capital Projects Fund for the sewer project.
5. General Fund intergovernmental (homestead and rollback and estate taxes) revenue of \$24,891 were classified as taxes.

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

To ensure the Village's financial statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements by the Fiscal Officer and Village Council, to identify and correct errors and omissions. The Fiscal Officer should also review the Village Handbook's chart of accounts to ensure that all accounts are being properly posted to the financial statements.

Officials Response:

No response was received.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2005-001	ORC § 5705.36 (A) (1) Certifying total amount available for expenditures.	No	Partially corrected, issued as a management letter comment.
2005-002	ORC § 5705.38 On or about the first day of each fiscal year an appropriation measure should be passed.	No	Partially corrected, issued as a management letter comment.
2005-003	ORC § 5727.82 (A) (3) Electric distribution tax	No	This finding has not been corrected and is repeated in this report as finding 2006-001



Mary Taylor, CPA
Auditor of State

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 27, 2007**