

**VILLAGE OF PROSPECT  
MARION COUNTY**

**REGULAR AUDIT**

**FOR THE YEARS ENDED DECEMBER 31, 2006 - 2005**





# Mary Taylor, CPA

Auditor of State

Village Council  
Village of Prospect  
139 North Main Street  
P.O. Box 186  
Prospect, Ohio 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, 2005 through December 31, 2006. 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 cursive script that reads "Mary Taylor".

Mary Taylor, CPA  
Auditor of State

April 30, 2008

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VILLAGE OF PROSPECT  
MARION COUNTY

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# KNOX & KNOX

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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, 2006 and 2005. 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, 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 described more fully in Note 1, the Village has prepared its 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 accounting principles 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 years ended December 31, 2006 and 2005. In addition to the accompanying financial statements present for 2006 and 2005, the revisions require presenting entity wide statements. 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 GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 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 and 2005, or its changes in financial position and cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Prospect, Marion County, as of December 31, 2006 and 2005, 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 Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 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 do not opine on the internal control over financial reporting or on compliance, that reports 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 considering the results of our audit.

***Knox & Knox***

Orrville, Ohio  
September 26, 2007



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, 2006

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>CASH RECEIPTS:</b>					
Local Taxes	\$63,797	\$35,921			\$99,718
Intergovernmental Receipts	74,472	49,410			123,882
Fines, Licenses, and Permits	3,393				3,393
Earnings on Investments	54,715	3,182			57,897
Miscellaneous	12,040				12,040
<b>Total Cash Receipts</b>	<b>208,417</b>	<b>88,513</b>			<b>296,930</b>
<b>CASH DISBURSEMENTS:</b>					
Current:					
Security of Persons and Property	30,877				30,877
Public Health Services	7,005				7,005
Transportation		96,746			96,746
General Government	84,549				84,549
Capital Outlay				1,932,792	1,932,792
Debt Service					
Principal Payments			120,000		120,000
Interest Payments			4,775		4,775
<b>Total Cash Disbursements</b>	<b>122,431</b>	<b>96,746</b>	<b>124,775</b>	<b>1,932,792</b>	<b>2,276,744</b>
<b>Total Receipts Over/(Under) Disbursements</b>	<b>85,986</b>	<b>(8,233)</b>	<b>(124,775)</b>	<b>(1,932,792)</b>	<b>(1,979,814)</b>
<b>OTHER FINANCING RECEIPTS/DISBURSEMENTS</b>					
Sale of Notes			60,000	1,932,792	1,992,792
Transfers-In		24,500	65,603		90,103
Transfers-Out	(55,427)				(55,427)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(55,427)</b>	<b>24,500</b>	<b>125,603</b>	<b>1,932,792</b>	<b>2,027,468</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements</b>	<b>30,559</b>	<b>16,267</b>	<b>828</b>		<b>47,654</b>
<b>Fund Cash Balances, January 1</b>	<b>177,718</b>	<b>49,429</b>	<b>7,373</b>		<b>234,520</b>
<b>FUND CASH BALANCES, DECEMBER 31</b>	<b>\$208,277</b>	<b>\$65,696</b>	<b>\$8,201</b>		<b>\$282,174</b>
<b>Reserves for Encumbrances, December 31</b>	<b>\$2,016</b>	<b>\$1,093</b>			<b>\$3,109</b>

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 TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2006

	Proprietary Fund Type
	Enterprise
<b>OPERATING CASH RECEIPTS:</b>	
Charges for Services	\$1,215,718
Miscellaneous	3,715
	1,219,433
<b>OPERATING CASH DISBURSEMENTS:</b>	
Personal Services	186,857
Fringe Benefits	99,146
Contractual Services	624,103
Supplies and Materials	46,258
Other	2,325
Capital Outlay	178,133
	1,136,822
Operating Income/(Loss)	82,611
<b>NON-OPERATING CASH RECEIPTS (DISBURSEMENTS):</b>	
Transfers-In	39,000
Transfers-Out	(73,676)
	(34,676)
Net Receipts Over/(Under) Disbursements	47,935
Fund Cash Balances, January 1	980,003
<b>FUND CASH BALANCES, DECEMBER 31</b>	<b>\$1,027,938</b>
Reserves for Encumbrances, December 31	<b>\$56,703</b>

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

VILLAGE OF PROSPECT  
MARION COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND  
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>CASH RECEIPTS:</b>					
Local Taxes	\$50,778	\$33,859			\$84,637
Intergovernmental Receipts	99,174	50,202		\$9,915	159,291
Fines, Licenses, and Permits	4,469				4,469
Earnings on Investments	34,313	1,162			35,475
Miscellaneous	6,965	682			7,647
	<u>195,699</u>	<u>85,905</u>		<u>9,915</u>	<u>291,519</u>
<b>CASH DISBURSEMENTS:</b>					
Current:					
Security of Persons and Property	24,220				24,220
Public Health Services	6,617				6,617
Transportation		134,435			134,435
General Government	70,257				70,257
Capital Outlay				130,511	130,511
Debt Service					
Principal Payments			\$312,792		312,792
Interest Payments			7,360		7,360
	<u>101,094</u>	<u>134,435</u>	<u>320,152</u>	<u>130,511</u>	<u>686,192</u>
Total Cash Disbursements					
	<u>101,094</u>	<u>134,435</u>	<u>320,152</u>	<u>130,511</u>	<u>686,192</u>
Total Receipts Over/(Under) Disbursements	<u>94,605</u>	<u>(48,530)</u>	<u>(320,152)</u>	<u>(120,596)</u>	<u>(394,673)</u>
<b>OTHER FINANCING RECEIPTS/DISBURSEMENTS</b>					
Sale of Notes			120,000		120,000
Other Debt Proceeds				120,596	120,596
Transfers-In		60,500	169,654		230,154
Transfers-Out	(58,514)				(58,514)
Other Uses	3,668				3,668
	<u>(54,846)</u>	<u>60,500</u>	<u>289,654</u>	<u>120,596</u>	<u>415,904</u>
Total Other Financing Receipts/(Disbursements)					
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	39,759	11,970	(30,498)		21,231
Fund Cash Balances, January 1	137,959	37,459	37,871		213,289
FUND CASH BALANCES, DECEMBER 31	<u>\$177,718</u>	<u>\$49,429</u>	<u>\$7,373</u>		<u>\$234,520</u>
Reserves for Encumbrances, December 31	<u>\$2,605</u>	<u>\$1,385</u>			<u>\$3,990</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 TYPE  
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Proprietary Fund Type</u>
	<u>Enterprise</u>
OPERATING CASH RECEIPTS:	
Charges for Services	\$1,208,862
Miscellaneous	<u>4,646</u>
Total Operating Cash Receipts	<u>1,213,508</u>
OPERATING CASH DISBURSEMENTS:	
Personal Services	234,455
Fringe Benefits	117,843
Contractual Services	710,878
Supplies and Materials	58,195
Other	<u>2,625</u>
Total Operating Cash Disbursements	<u>1,123,996</u>
Operating Income/(Loss)	<u>89,512</u>
NON-OPERATING CASH RECEIPTS (DISBURSEMENTS):	
Transfers-Out	<u>(171,640)</u>
Total Non-Operating Cash Receipts (Disbursements)	<u>(171,640)</u>
Net Receipts over/(Under) Disbursements	(82,128)
Fund Cash Balances, January 1	<u>1,062,131</u>
FUND CASH BALANCES, DECEMBER 31	<u><u>\$980,003</u></u>
Reserves for Encumbrances, December 31	<u><u>\$9,725</u></u>

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

VILLAGE OF PROSPECT  
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Prospect, Marion 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 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 investment purchases are not reported as disbursements and sales of investments are not recorded as receipts. The Village reports gains or losses at the time of sale 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 had the following significant Special Revenue Funds:

VILLAGE OF PROSPECT  
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Fund Accounting (continued)

2. Special Revenue Funds (continued)

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

*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 (Wastewater Treatment Plant)* - This fund receives transfers from the Sewer fund for the purpose of retiring related debt.

4. Enterprise Fund

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 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 department, function or object level of, 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.

VILLAGE OF PROSPECT  
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process (continued)

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.

A summary of 2006 and 2005 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>2006</u>	<u>2005</u>
Demand deposits	\$187,786	\$48,864
STAR Ohio	<u>1,122,326</u>	<u>1,165,659</u>
Total deposits and investments	<u>\$1,310,112</u>	<u>\$1,214,523</u>

Deposits: Deposits are (1) insured by the Federal Depository Insurance Corporation or (2) 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.

VILLAGE OF PROSPECT  
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2006 and 2005 follows:

Fund Type	2006 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$192,000	\$ 208,417	\$16,417
Special Revenue	108,300	113,013	4,713
Debt Service	125,000	125,603	603
Capital Projects	1,500,000	1,932,792	432,792
Enterprise	1,154,000	1,258,400	104,400
Total	<u>\$3,079,300</u>	<u>\$3,638,225</u>	<u>\$558,925</u>

Fund Type	2006 Budgeted vs Actual Budgetary Basis Expenditures		
	Appropriation Authority	Budgetary Expenditures	Variance
General	\$279,105	\$179,854	\$99,251
Special Revenue	131,285	97,839	33,446
Debt Service	130,000	124,775	5,225
Capital Projects	1,500,000	1,932,792	(432,792)
Enterprise	1,851,725	1,267,201	584,524
Total	<u>\$3,892,115</u>	<u>\$3,602,461</u>	<u>\$289,654</u>

Fund Type	2005 Budgeted vs. Actual Receipts		
	Budgeted Receipts	Actual Receipts	Variance
General	\$204,000	\$199,367	(\$4,633)
Special Revenue	145,000	146,405	1,405
Debt Service	288,500	289,654	1,154
Capital Projects	184,326	130,511	(53,815)
Enterprise	1,211,100	1,213,508	2,408
Total	<u>\$2,032,926</u>	<u>\$1,979,445</u>	<u>(\$53,481)</u>

Fund Type	2005 Budgeted vs Actual Budgetary Basis Expenditures		
	Appropriation Authority	Budgetary Expenditures	Variance
General	\$269,913	\$162,213	\$107,700
Special Revenue	150,755	135,820	14,935
Debt Service	324,500	320,152	4,348
Capital Projects	184,326	130,511	53,815
Enterprise	1,913,207	1,304,911	608,296
Total	<u>\$2,842,701</u>	<u>\$2,053,607</u>	<u>\$789,094</u>



VILLAGE OF PROSPECT  
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

4. 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 for 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 owner, who must file a list of such property to the County by each April 30.

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

5. DEBT

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

The Ohio Water Development Authority loan of \$1,731,100 is still open and an amortization schedule has not been set up. The loan is accruing interest at zero percent.

The Ohio Public Works Commission loan of \$322,646 is still open and an amortization schedule has not been set up. The loan is accruing interest at zero percent.

Amortization of the Wastewater Revenue Bond follows:

Year ending December 31	Wastewater Revenue Bond		
	Principal	Interest	Total
2007	\$60,000	\$2,550	\$62,550

6. RETIREMENT SYSTEMS

The Village's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The plan provides retirement benefits, including post-retirement 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. OPERS members contributed 9.0% and 8.5% of their gross salaries, respectively. The Village contributed an amount equal to 13.7% (2006) and 13.55% (2005) of participants' gross salaries. The Village has paid all contributions required through December 31, 2006.

VILLAGE OF PROSPECT  
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

7. 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 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 member's 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 after January 1, 2006) as noted above.

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.

VILLAGE OF PROSPECT  
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

7. RISK MANAGEMENT (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, 2006 and 2005.

<u>Casualty Coverage</u>	<u>2006</u>	<u>2005</u>
Assets	\$30,997,868	\$29,719,675
Liabilities	(15,875,741)	(15,994,168)
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	(863,163)	(1,068,245)
Retained Earnings	<u>\$4,262,163</u>	<u>\$3,375,087</u>

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. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on the 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.

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

VILLAGE OF PROSPECT  
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

8. PRAIRIE STATE PROJECT

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

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

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

<u>Owner</u>	<u>Ownership Interest</u>
AMP-Ohio	23.26%
IMEA	15.17%
IMPA	12.64%
MJMEUC	12.33%
PPI	8.22%
SIPC	7.90%
KMPA	7.82%
NIMPA	7.60%
Lively Grove Energy	<u>5.06%</u>
Total	100.00%

**AMPGS.** AMP-Ohio is currently developing a twin unit, supercritical boiler, coal-fired, steam and electric generating facility having an aggregate net rated electric generating capacity of approximately 960 MW, to be known as the American Municipal Power Generating Station (“AMPGS”) in Meigs County, in southeastern Ohio on the Ohio River. AMP-Ohio has options on

VILLAGE OF PROSPECT  
MARION COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005

8. PRAIRIE STATE PROJECT (continued)

the site and has engaged an independent engineering firm for owner engineer services in connection with its efforts to obtain and evaluate proposals from three potential engineer, procure, construct (EPC) contractors for AMPGS. To the extent that AMP-Ohio's members do not subscribe for the full capacity in AMPGS, AMP-Ohio expects to sell undivided ownership interest to unrelated parties. AMP-Ohio has received an air permit from the Ohio Environmental Protection Agency for the AMPGS project. That permit is being appealed to the Ohio Environmental Review Appeals Commission. In addition, the Ohio Power Siting Board has issued a Certificate of Environmental Compatibility of Public Need for the AMPGS project. As of all interest expense prior to the commercial operation date in 2013, would be approximately \$3.391 billion dollars. AMP-Ohio's shares of the expenses for a smaller ownership interest would be reduced proportionately.

**Hydroelectric Projects.** AMP-Ohio is also currently developing three hydroelectric projects (the "Hydroelectric Projects") - the Cannelton hydroelectric generating facility, the Smithland hydroelectric generating facility and the Willow Island hydroelectric generating facility - all on the Ohio River, with an aggregate generating capacity of approximately 191 MW. Each of these projects entail the installation of run-of-the-river hydroelectric generating facilities on existing United States Army Corps of Engineers' dams and includes associated transmission facilities. The AMP-Ohio Hydroelectric Projects, including associated transmission facilities, will be constructed, owned and operated by AMP-Ohio. AMP-Ohio has obtained from the Federal Energy Regulatory Commission licenses to operate all three hydroelectric generation facilities. In a feasibility report prepared for AMP-Ohio in 2007, the consulting engineer projected that the aggregate principal of bonds that AMP-Ohio would be required to issue to finance the three projects, including capitalized interest to their estimated in service dates in 2012, will be approximately \$940 million. AMP-Ohio currently expects to provide interim financing for the Hydroelectric Projects through its Line of Credit, including the issuance of CP, and to issue a portion of its permanent financing therefor in the summer of 2008 when it expects to commence construction of the cofferdams for the projects.

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# KNOX & KNOX

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Accountants and Consultants

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

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, 2006 and 2005, and have issued our report thereon dated September 26, 2007, wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Village's internal control over financial reporting as basis for designing our audit procedures in order to express our opinions 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.

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.

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 internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did identify one deficiency that is considered a material weakness, and is shown as Finding 2006-01 in the accompanying schedule. We noted other matters that we reported to the Village in a separate letter dated September 26, 2007

COMPLIANCE AND OTHER MATTERS

As part of reasonably assuring whether the Village's basic financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed one instance of noncompliance that we must report under *Government Auditing Standards* and is shown in the accompanying schedule as Finding 2006-02.

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

*KNOX & KNOX*

Orrville, Ohio  
September 26, 2007



VILLAGE OF PROSPECT  
MARION COUNTY  
SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER 2006-01

Reportable Condition

The debt required an adjustment of \$432,792 due to payments made directly to vendors by creditors in 2006.

Client Response: None

FINDING NUMBER 2006-02

Compliance

Ohio Revised Code Section 5705.41(B) requires that expenditures be properly appropriated. In 2006, the Capital Projects Fund has expenditures of \$1,932,792 and appropriations of \$1,500,000.

Client Response: None





**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF PROSPECT**

**MARION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 13, 2008**