



**VILLAGE OF CUSTAR
WOOD COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2008



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, 2008.....	5
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances –Proprietary Fund Type - For the Year Ended December 31, 2008.....	6
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - All Governmental Fund Types - For the Year Ended December 31, 2007.....	7
Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances - Proprietary Fund Type - For the Year Ended December 31, 2007.....	8
Notes to the Financial Statements	9
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19
Schedule of Findings	21
Schedule of Prior Audit Findings	23

This page intentionally left blank.



Mary Taylor, CPA
Auditor of State

Village of Custar
Wood County
P. O. 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

April 19, 2010

This page intentionally left blank.



Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Village of Custar
Wood County
P. O. Box 137
Custar, Ohio 43511-0137

To the Village Council:

We have audited the accompanying financial statements of the Village of Custar, Wood County, (the Village) as of and for the years ended December 31, 2008 and 2007. 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

One Government Center / Suite 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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, 2008 and 2007 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, 2008 and 2007, or its changes in financial position or cash flows, where applicable 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 and reserves for encumbrances of the Village of Custar, Wood County, as of December 31, 2008 and 2007, 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 April 19, 2010, 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.

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

Mary Taylor, CPA
Auditor of State

April 19, 2010

**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, 2008**

	<u>Governmental Fund Types</u>			<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Property and Local Taxes	\$27,306	\$851		\$28,157
Intergovernmental	9,641	10,321	\$47,900	67,862
Fines, Licenses and Permits	55			55
Earnings on Investments	6,915	370		7,285
Miscellaneous	805			805
Total Cash Receipts	<u>44,722</u>	<u>11,542</u>	<u>47,900</u>	<u>104,164</u>
Cash Disbursements:				
Current:				
Security of Persons and Property	1,823			1,823
Leisure Time Activities	2,579			2,579
Community Environment	345			345
Basic Utility Service	712			712
Transportation		13,609		13,609
General Government	21,239			21,239
Capital Outlay	3,500		48,531	52,031
Total Cash Disbursements	<u>30,198</u>	<u>13,609</u>	<u>48,531</u>	<u>92,338</u>
Total Receipts Over/(Under) Disbursements	<u>14,524</u>	<u>(2,067)</u>	<u>(631)</u>	<u>11,826</u>
Other Financing Disbursements:				
Transfers-Out	(13,268)			(13,268)
Other Financing Uses	(511)			(511)
Total Other Financing Disbursements	<u>(13,779)</u>			<u>(13,779)</u>
Excess of Cash Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	745	(2,067)	(631)	(1,953)
Fund Cash Balances, January 1	<u>39,043</u>	<u>53,464</u>	<u>3,361</u>	<u>95,868</u>
Fund Cash Balances, December 31	<u>\$39,788</u>	<u>\$51,397</u>	<u>\$2,730</u>	<u>\$93,915</u>
Reserve for Encumbrances, December 31	<u>\$219</u>	<u>\$4</u>		<u>\$223</u>

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2008**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$256,286
Operating Cash Disbursements:	
Personal Services	14,553
Employee Fringe Benefits	2,127
Contractual Services	188,809
Supplies and Materials	12,955
Other	1,275
Total Operating Cash Disbursements	219,719
Operating Income	36,567
Transfers-In	13,268
Net Receipts Over Disbursements	49,835
Fund Cash Balances, January 1	290,571
Fund Cash Balances, December 31	\$340,406
Reserve for Encumbrances, December 31	\$146

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
Cash Receipts:				
Property and Local Taxes	\$23,352	\$1,032		\$24,384
Donations	1,939			1,939
Intergovernmental	7,927	9,732	\$87,200	104,859
Charges for Services	208			208
Fines, Licenses and Permits	150			150
Earnings on Investments	5,806	850		6,656
Miscellaneous	390			390
	39,772	11,614	87,200	138,586
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons and Property	2,000			2,000
Leisure Time Activities	3,165			3,165
Basic Utility Service	1,261			1,261
Transportation		1,565		1,565
General Government	27,509			27,509
Debt Service:				
Interest and Fiscal Charges			15,106	15,106
Capital Outlay	15,634		221,086	236,720
	49,569	1,565	236,192	287,326
Total Cash Disbursements				
Total Receipts Over/(Under) Disbursements	(9,797)	10,049	(148,992)	(148,740)
Other Financing Receipts / (Disbursements):				
Proceeds from Sale of Public Debt:				
Sale of Notes			141,966	141,966
Sale of Fixed Assets	1,750			1,750
Transfers-Out	(8,512)			(8,512)
Other Financing Sources			8,537	8,537
Other Financing Uses	(31)			(31)
	(6,793)		150,503	143,710
Total Other Financing Receipts / (Disbursements)				
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(16,590)	10,049	1,511	(5,030)
Fund Cash Balances, January 1	55,633	43,415	1,850	100,898
Fund Cash Balances, December 31	\$39,043	\$53,464	\$3,361	\$95,868
Reserve for Encumbrances, December 31	\$199	\$4	\$11,511	\$11,714

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$202,256
Operating Cash Disbursements:	
Personal Services	8,485
Employee Fringe Benefits	1,206
Contractual Services	155,523
Supplies and Materials	16,364
Other	850
Total Operating Cash Disbursements	182,428
Operating Income	19,828
Non-Operating Cash Disbursements:	
Capital Outlay	13,984
Excess of Receipts Over Disbursements Before Interfund Transfers	5,844
Transfers-In	8,512
Net Receipts Over Disbursements	14,356
Fund Cash Balances, January 1	276,215
Fund Cash Balances, December 31	\$290,571
Reserve for Encumbrances, December 31	\$154

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, 2008 AND 2007**

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 the Village of Weston to receive 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:

Public Entities Pool of Ohio (PEP) 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. Deposits and Investments

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

The Village values certificates of deposit at cost.

D. Fund Accounting

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

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

1. General Fund

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

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 grant proceeds of Ohio Public Works Commission and Community Development Block Grant. The proceeds are being used for a sewer project.

Sewer Capital Loan Fund – This fund receives loan proceeds from Ohio Water Development Authority. 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 the following significant Enterprise Fund:

Electric Fund - This fund receives charges for services from residents to cover electric service costs.

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.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

1. Summary of Significant Accounting Policies (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 individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2008 and 2007 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 Deposits

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

	2008	2007
Demand deposits	\$283,129	\$240,682
Certificates of deposit	151,192	145,757
Total deposits	\$434,321	\$386,439

Deposits: 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 years ending December 31, 2008 and 2007 follows:

2008 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General		\$44,722	\$44,722
Special Revenue		11,542	11,542
Capital Projects	\$47,900	47,900	
Enterprise		269,554	269,554
Total	\$47,900	\$373,718	\$325,818

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

3. Budgetary Activity (Continued)

2008 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$36,456	\$44,196	(\$7,740)
Special Revenue	3,664	13,613	(9,949)
Capital Projects	60,042	48,531	11,511
Enterprise	206,014	219,865	(13,851)
Total	\$306,176	\$326,205	(\$20,029)

2007 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General		\$41,522	\$41,522
Special Revenue		11,614	11,614
Capital Projects	\$31,001	237,703	206,702
Enterprise		210,768	210,768
Total	\$31,001	\$501,607	\$470,606

2007 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$61,095	\$58,311	\$2,784
Special Revenue	9,391	1,569	7,822
Capital Projects	449,889	247,703	202,186
Enterprise	253,000	196,566	56,434
Total	\$773,375	\$504,149	\$269,226

4. Compliance

Contrary to Ohio law, appropriations exceeded estimated resources in all funds in both years and expenditures exceeded appropriations in 2008. Also, 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 2008 and 2007. 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.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

5. Property Tax (Continued)

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, 2008 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan #4444	751,390	1.5%
Ohio Public Works Commission	22,500	0%
Total	<u><u>\$773,890</u></u>	

The Ohio Water Development Authority relates to a sewer project the Ohio Environmental Protection Agency mandated. The amount of the loan is \$782,759 to be repaid over 30 years. The Village previously entered into an agreement with Northwestern Water and Sewer District where the District assumed responsibility for the payment of the debt.

The Ohio Public Works Commission debt relates to a sewer project the Ohio Environmental Protection Agency mandated. The amount of the loan is \$25,000 to be repaid over 20 years. The Village previously entered into an agreement with Northwestern Water and Sewer District where the District assumed responsibility for the payment of the debt.

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

Year ending December 31:	<u>OWDA Loan #4444</u>	<u>Ohio Public Works Commission</u>
2009	\$32,498	\$1,250
2010	32,498	1250
2011	32,498	1250
2012	32,498	1250
2013	32,498	1250
2014-2018	162,488	6250
2019-2023	162,488	6250
2024-2028	162,488	3750
2029-2033	162,488	
2034-2037	129,990	
Total	<u><u>\$942,432</u></u>	<u><u>\$22,500</u></u>

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

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 2008 and 2007, OPERS members contributed 10 and 9.5%, respectively, of their gross salaries and the Village contributed an amount equaling 14 and 13.85%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2008.

8. Risk Management

Risk Pool Membership

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

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

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2008, PEP retained \$350,000 for casualty claims and \$100,000 for property claims.

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

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, 2008 and 2007.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

8. Risk Management (Continued)

	<u>2008</u>	<u>2007</u>
Assets	\$35,769,535	\$37,560,071
Liabilities	<u>(15,310,206)</u>	<u>(17,340,825)</u>
Net Assets	<u>\$20,459,329</u>	<u>\$20,219,246</u>

At December 31, 2008 and 2007, respectively, the liabilities above include approximately \$13.8 million and \$15.9 million of estimated incurred claims payable. The assets and retained earnings above also include approximately \$12.9 million and \$15.0 million of unpaid claims to be billed to approximately 445 member governments in the future, as of December 31, 2008, and 2007, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$4,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

<u>Contributions to PEP</u>	
2007	\$3,905
2008	\$4,006

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP provided they provide 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 contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

9. Ohio Municipal Electric Generation Agency Venture (OMEGA JV2)

The Village 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.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

9. Ohio Municipal Electric Generation Agency Venture (OMEGA JV2) (Continued)

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

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants' entitlement and 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 \$1,101 at December 31, 2008. 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, 2008 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
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	100.00%	134,081

**VILLAGE OF CUSTAR
WOOD COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)**

10. Ohio Municipal Electric Generation Agency Venture (OMEGA JV5)

The Village 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, 2008 and 2007 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 \$5,375 at December 31, 2008. 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, 2008 AND 2007
(Continued)**

11. AMP-Ohio

The Village is a member of AMP-Oho 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 \$193,973 for 2008 and \$141,889 for 2007 to AMP-Ohio.

12. Subsequent Events

On February 15, 2009 the Village entered into an assignment and assumption agreement with Northwestern Water and Sewer District whereby the Village assigned ownership of all waste water facilities previously owned and maintained by the Village to the District. This agreement further assigns all agreements, contracts, permits, and licenses held by the Village pertaining to its waste water facilities to the District.



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
P. O. 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 years ended December 31, 2008 and 2007, and have issued our report thereon dated April 19, 2010, 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 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 findings 2008-001 and 2008-004 described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting.

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. We believe the significant deficiencies described above are also material weaknesses.

We also noted certain internal control matters that we reported to the Village's management in a separate letter dated April 19, 2010.

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 2008-001 through 2008-003.

We also noted certain noncompliance matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated April 19, 2010.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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

April 19, 2010

VILLAGE OF CUSTAR
WOOD COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2008 AND 2007

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

FINDING NUMBER 2008-001

Noncompliance Citation/ Material Weakness

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 Ohio Revised Code § 5727.82(A)(1) 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 2008 and 2007. Instead, these funds were deposited in the Electric Fund. The Village should have put \$13,268 and \$8,512, respectively, in local taxes in the General Fund and then transferred it back to the Electric Fund, as required by the Village's ordinance.

The accompanying financial statements have been adjusted to show these amounts as tax revenues and offsetting transfers-out in the General Fund and corresponding transfers-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 the Village's ordinance.

Officials' Response: The Village plans on correcting this.

FINDING NUMBER 2008-002

Noncompliance Citation

Ohio Revised Code § 5705.39 states that the total appropriations from each fund shall not exceed the total of the estimated revenue available for expenditure therefrom, as certified by the budget commission, or in case of appeal, by the board of tax appeals. For purposes of this section of the Ohio Revised Code, estimated revenue is commonly referred to as "estimated resources" because it includes unencumbered fund balances.

The Village did not certify to the county auditor the total amount from all sources available for expenditures from each fund. Therefore, the county auditor could not prepare the certificate of estimated resources. This created appropriations in excess of estimated resources in all funds for both 2008 and 2007, ranging in amounts from \$11,542 to \$269,554.

Allowing appropriations to remain higher than estimated resources increases the possibility appropriations may be unrealistically inflated which could result in deficit spending.

Management should monitor estimated resources and appropriations throughout the year and make the necessary modifications, with approval of Village Council, to avoid appropriations exceeding estimated resources to reduce the possibility of overspending.

Officials' Response: The Village corrected this in 2010.

FINDING NUMBER 2008-003

Noncompliance Citation

Ohio Revised Code § 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure unless it has been properly appropriated. Our testing of budgetary compliance at December 31 identified the following instances in which expenditures (cash disbursements plus encumbrances) exceeded appropriations in the following funds for 2008:

Fund	Appropriations	Expenditures	Excess
2008			
General	\$36,456	\$44,196	(\$7,740)
Street Construction, Maintenance and Repair	3,664	13,614	(9,950)
Electric Operating	204,764	219,865	(15,101)

The failure to have adequate appropriations in place at the time expenditures are being made could cause expenditures to exceed available resources, further resulting in deficit spending practices.

The Fiscal Officer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Fiscal Officer may request that Council approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

Officials' Response: The Village will work on correcting this.

FINDING NUMBER 2008-004

Material Weakness

Financial Reporting

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

The financial statements contained material errors, such as the following:

1. Interest earned on certificates of deposit was not posted. This amounted to \$10,593 in 2007 and \$5,434 in 2008.
2. A \$50,000 Certificate of Deposit purchased in 2007 was shown as an expense in 2007.
3. The Village benefited from \$47,900 in Ohio Public Works Commission (OPWC) grant funding in 2008. However, the Fiscal Officer did not record the related receipts and disbursements in the Village's accounting system.
4. The Village Board of Public Affairs maintained a separate bank account with a balance of \$20,797 which is not reported as part of the financial statements.

Adjusting entries ranging in amounts from \$1,327 to \$50,000 were posted to the financial statements to correct these and other errors.

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 all accounts are being properly posted to the financial statements.

Officials' Response: The Village will work on correcting this.

**VILLAGE OF CUSTAR
WOOD COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008 AND 2007**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2006-001	ORC §5727.82(A)(3) distribution of electric utility tax.	No	This finding has not been corrected and is repeated as finding 2008-001 in this report.
2006-002	ORC §5705.41(D) – certification of expenditures.	No	Partially corrected. This finding has been repeated in the management letter
2006-003	Electric Utility Billing and Collections weaknesses	No	Partially corrected. This finding has been repeated in the management letter
2006-004	Significant errors in Financial Reporting	No	This finding has not been corrected and is repeated as finding 2008-003 in this report



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
MAY 6, 2010