VILLAGE OF REPUBLIC
SENECA COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2011-2010

Dave Yost • Auditor of State

VILLAGE OF REPUBLIC
SENECA COUNTY

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Dave Yost • Auditor of State

Village of Republic
Seneca County
219 Washington Street, P.O. Box 219
Republic, Ohio 44867-0219

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.

Dave Yost
Auditor of State

August 30, 2012

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INDEPENDENT ACCOUNTANTS' REPORT

Village of Republic
Seneca County
219 Washington Street, P.O. Box 219
Republic, Ohio 44867-0219

To the Village Council:

We have audited the accompanying financial statements of the Village of Republic, Seneca County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010. 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(A) mandates 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.

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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, 2011 and 2010 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, 2011 and 2010, 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 as of December 31, 2011 and 2010 and the reserves for encumbrances as of December 31, 2010 of Village of Republic, Seneca County, Ohio and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1F, during 2011 the Village adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2012, 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.

Dave Yost

Dave Yost
Auditor of State

August 30, 2012

VILLAGE OF REPUBLIC
SENECA COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	$18,054		$18,054
Intergovernmental	65,693	$26,078	91,771
Charges for Services	4,092		4,092
Fines, Licenses and Permits	70,678	129	70,807
Earnings on Investments	4,471	132	4,603
Miscellaneous	19,137	1,686	20,823
Total Cash Receipts	182,125	28,025	210,150
Cash Disbursements			
Current:			
Security of Persons and Property	100,818	417	101,235
Community Environment	1,000		1,000
Basic Utility Services		924	924
Transportation		21,789	21,789
General Government	24,403		24,403
Capital Outlay	6,402		6,402
Total Cash Disbursements	132,623	23,130	155,753
Excess of Receipts Over Disbursements	49,502	4,895	54,397
Other Financing Receipts			
Sale of Capital Assets	3,515		3,515
Net Change in Fund Cash Balances	53,017	4,895	57,912
Fund Cash Balances, January 1	21,684	8,722	30,406
Fund Cash Balances, December 31			
Restricted		13,530	13,530
Assigned	387	87	474
Unassigned	74,314		74,314
Fund Cash Balances, December 31	$74,701	$13,617	$88,318

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

VILLAGE OF REPUBLIC
SENECA COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Proprietary Fund Types	Fiduciary Fund Types	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	$567,715		$567,715
Fines, Licenses and Permits		$4,680	4,680
Miscellaneous	98,526		98,526
Total Operating Cash Receipts	666,241	4,680	670,921
Operating Cash Disbursements			
Personal Services	134,552		134,552
Employee Fringe Benefits	32,529		32,529
Contractual Services	318,957	2,400	321,357
Supplies and Materials	52,441	1,028	53,469
Other	4,085	17,000	21,085
Total Operating Cash Disbursements	542,564	20,428	562,992
Operating Income	123,677	(15,748)	107,929
Non-Operating Receipts (Disbursements)			
Intergovernmental	8,000		8,000
Special Assessments	502		502
Capital Outlay	(51,558)		(51,558)
Principal Retirement	(30,355)		(30,355)
Interest and Other Fiscal Charges	(63,438)		(63,438)
Total Non-Operating Receipts (Disbursements)	(136,849)		(136,849)
Net Change in Fund Cash Balances	(13,172)	(15,748)	(28,920)
Fund Cash Balances, January 1	667,191	18,452	685,643
Fund Cash Balances, December 31	$654,019	$2,704	$656,723

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

VILLAGE OF REPUBLIC
SENECA COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES (CASH BASIS) ALL GOVERNMENTAL FUND TYPES FOR THE YEAR ENDED DECEMBER 31, 2010

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts:				
Property and Local Taxes	$32,784			$32,784
Intergovernmental	65,772	$29,289		95,061
Charges for Services	1,611			1,611
Fines, Licenses and Permits	31,958	250		32,208
Earnings on Investments	4,491	68		4,559
Miscellaneous	2,884	344		3,228
Total Cash Receipts	139,500	29,951		169,451
Cash Disbursements:				
Current:				
Security of Persons and Property	97,624	110		97,734
Community Environment	121			121
Transportation		25,943		25,943
General Government	25,553			25,553
Capital Outlay	6,402			6,402
Total Cash Disbursements	129,700	26,053		155,753
Excess Receipts Over/(Under) Disbursements	9,800	3,898		13,698
Other Financing Receipts / (Disbursements):				
Sale of Capital Assets	4,202			4,202
Transfers-Out	(2,674)		($104)	(2,778)
Total Other Financing Receipts (Disbursements)	1,528		(104)	1,424
Net Change in Fund Cash Balances	11,328	3,898	(104)	15,122
Fund Cash Balances, January 1	10,356	4,824	$104	15,284
Fund Cash Balances, December 31	$21,684	$8,722		$30,406
Reserve for Encumbrances, December 31	$391	$71		$462

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

VILLAGE OF REPUBLIC
SENECA COUNTY

COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL PROPRIETARY AND FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Proprietary Fund Types	Fiduciary Fund Types	
	Enterprise	Agency	Totals (Memorandum Only)
Operating Cash Receipts:			
Charges for Services	$548,160		$548,160
Fines, Licenses and Permits		$24,822	24,822
Miscellaneous	116,512		116,512
Total Operating Cash Receipts	664,672	24,822	689,494
Operating Cash Disbursements:			
Personal Services	114,024		114,024
Employee Fringe Benefits	30,203		30,203
Contractual Services	298,616	1,802	300,418
Supplies and Materials	93,109	725	93,834
Other	19,473	6,803	26,276
Total Operating Cash Disbursements	555,425	9,330	564,755
Operating Income	109,247	15,492	124,739
Non-Operating Receipts (Disbursements)			
Intergovernmental	80,600		
Capital Outlay	(65,182)		(65,182)
Redemption of Principal	(20,139)		(20,139)
Interest and Other Fiscal Charges	(61,785)		(61,785)
Other Non-Operating Cash Disbursements	(1,064)		(1,064)
Total Non-Operating Receipts (Disbursements)	(67,570)		(148,170)
Income Before Transfers	41,677	15,492	272,909
Transfers-In	2,778		2,778
Net Change in Fund Cash Balances	44,455	15,492	275,687
Fund Cash Balances, January 1	622,736	2,960	625,696
Fund Cash Balances, December 31	$667,191	$18,452	$685,643
Reserve for Encumbrances, December 31	$465		$465

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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 Republic, Seneca County, Ohio (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water, sewer and electric utilities and police services.

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

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.

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:

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

1. Summary of Significant Accounting Policies (Continued)

3. 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 funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sanitary Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

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

4. Fiduciary Funds

Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other Villages which are not available to support the Village's own programs.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for Mayor's Court.

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.

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.

1. Summary of Significant Accounting Policies (Continued)

A summary of 2011 and 2010 budgetary activity appears in Note 3.

F. Fund Balance

For 2011, the Village adopted Government Accounting Standards Board Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The adoption of GASB 54 had no affect on the previously reported fund balances.

For December 31, 2011, fund balance is divided into five classifications based primarily on the extent to which the Village must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Village classifies assets as nonspendable when legally or contractually required to maintain the amounts intact.

2. Restricted

Fund balance is restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

Council can commit amounts via formal action (resolution). The Village must adhere to these commitments unless the Council amends the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as restricted or committed. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, assigned amounts represent intended uses established by Village Council or a Village official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Village applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

1. Summary of Significant Accounting Policies (Continued)

G. 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.

H. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. Equity in Pooled Deposits

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

	2011	2010
Demand deposits	$345,041	$316,049
Certificates of deposit	400,000	400,000
Total deposits	$745,041	$716,049

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2011 and 2010 follows:

2011 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$165,355	$185,640	$20,285
Special Revenue	31,114	28,025	(3,089)
Enterprise	664,575	674,743	10,168
Fiduciary	3,500	4,680	1,180
Total	$864,544	$893,088	$28,544

2011 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$204,039	$132,623	$71,416
Special Revenue	39,836	23,130	16,706
Enterprise	931,662	687,915	243,747
Fiduciary	3,500	20,428	(16,928)
Total	$1,179,037	$864,096	$314,941

3. Budgetary Activity (Continued)

2010 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$162,897	$143,702	($19,195)
Special Revenue	33,875	29,951	(3,924)
Enterprise	687,043	748,050	61,007
Fiduciary	15,000	24,822	9,822
Total	$898,815	$946,525	$47,710

2010 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$153,435	$132,765	$20,670
Special Revenue	37,175	26,124	11,051
Capital Projects	104	104	
Enterprise	869,694	704,060	165,634
Fiduciary	15,861	9,330	6,531
Total	$1,076,269	$872,383	$203,886

Contrary to Ohio law, eighty-eight percent of expenditure transactions tested were not certified by the fiscal officer at the time the commitment was incurred.

4. 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.

5. Debt

Debt outstanding at December 31, 2011 was as follows:

	Principal	Interest Rate
Sewer System Mortgage Revenue Bonds	$1,253,242	4.500%
Storm Warning System Improvement Bonds	46,350	4.375%
Total	$1,299,592	

Proceeds from the Sewer System Mortgage Revenue Bonds were used to finance the water and sewer plant expansion project that was mandated by the Ohio Environmental Protection Agency. The United States Department of Agriculture (USDA) through Rural Development purchased the bonds through the Village to pay off the OWDA loan in full. The USDA determined the scheduled payments based on the amounts actually borrowed. The loan is collateralized by sewer receipts.

Proceeds from the Storm Warning System Improvement Bonds were used to pay a portion of the cost of improving the Village's storm warning system, including the acquisition and installation of generators and storm warning sirens, together with all necessary appurtenances and equipment thereto (the Project). The Village applied for financial assistance from the United States Department of Agriculture (USDA) through Rural Development. The loan will be repaid in annual installments over 10 years. The loan is collateralized by electric and sewer receipts.

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

Year ending December 31:	Sewer System Mortgage Bonds	Storm Warning Improvement Bonds
2012	$73,603	$6,978
2013	73,580	7,011
2014	73,570	6,984
2015	73,624	6,998
2016	73,582	7,000
2017-2021	368,022	20,958
2022-2026	368,006	
2027-2031	367,804	
2032-2036	368,014	
2037-2041	367,883	
2042-2046	220,781	
Total	$2,428,469	$55,929

6. Retirement Systems

The Village's certified full-time Police Officer belongs to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

6. Retirement Systems (Continued)

The Ohio Revised Code also prescribes contribution rates. For 2011 and 2010, OP&F participants contributed 10% of their wages. For 2011 and 2010, the Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages. For 2011 and 2010, OPERS members contributed 10% of their gross salaries and the Village contributed an amount equaling 14% of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

7. Risk Management

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, 2010, PEP retained $350,000 for casualty claims and $150,000 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.

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, 2010 and 2009 (the latest information available):

	2010	2009
Assets	$34,952,010	$36,374,898
Liabilities	(14,320,812)	(15,256,862)
Net Assets	$20,631,198	$21,118,036

7. Risk Management (Continued)

At December 31, 2010 and 2009, respectively, the liabilities above include approximately $12.9 million and $14.1 million of estimated incurred claims payable. The assets above also include approximately $12.4 million and $13.7 million of unpaid claims to be billed to approximately 454 member governments in the future, as of December 31, 2010 and 2009, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2010, the Village's share of these unpaid claims collectible in future years is approximately $10,000.

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.

Contributions to PEP	
2010	2009
$10,565	$0

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to 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.

8. Joint Ventures

The Village of Republic is a Financing Participant with an ownership percentage of .08 %, 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.

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.

8. Joint Ventures (Continued)

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, 2011, Republic 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, which acts as the joint venture's agent. During 1993 and 2001 AMP 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 $8,497 at December 31, 2011. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

9. American Municipal Power Generating Station Project

The Village of Republic is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The Village executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

History of the AMPGS Project

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a $3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

9. American Municipal Power Generating Station Project (Continued)

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2011, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified $34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site. The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2011 AMP has a regulatory asset of $86,548,349 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

AMP has consistently communicated with the AMPGS participants as to the risks and uncertainties with respect to the outstanding potential liability the Village has as a result of the cancellation of the AMPGS Project. Meetings with AMPGS Project participants have been held as necessary to communicate any updates to both costs being incurred and ongoing litigation. At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

Based on an allocation to Republic of 100 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the Village of Republic has a potential stranded cost obligation of $16,356 for the AMPGS Project. The Village of Republic does not have any payments on deposit with AMP at December 31, 2011.

9. American Municipal Power Generating Station Project (Continued)

AMP Fremont Energy Center (AFEC) Development Fee

The AFEC Development Fee is the amount paid by AFEC participants to the AMPGS project as a Development Fee in August, 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC Participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board The Village is a participant in the AFEC project and has received a credit to reduce its share of AMPGS potential stranded costs as noted below.

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the Village receives a credit of $9,423 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 90 and the total kW share of those participating in both projects. The Village has not recorded this credit in its financial statements as of December 31, 2011.

Recording of Stranded Costs

The Village has not recorded stranded costs for the AMPGS Project. The Village plans to finance any future costs by paying though accumulated earnings without adjusting rates.

The Village of Republic has not requested an invoice from AMP for the potential stranded costs identified in the memos AMP sent in November and December 2011. The Village is not intending to request an invoice from AMP until such time as the litigation with the EPC contractor is finalized.

Had the Village chosen to expense the potential stranded costs the Village believes it would have not violated its covenant obligations for its debt covenant obligation(s) with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5, 6, and 2.

In making its determination as to how to proceed with the accounting treatment for the potential AMPGS Project liability, the Village has relied upon its Village Solicitor, Richard H. Palau, provided by AMP and its legal counsel with respect to the data and Village management.

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

Village of Republic
Seneca County
219 Washington Street, P.O. Box 219
Republic, Ohio 44867-0219

To the Village Council:

We have audited the financial statements of the Village of Republic, Seneca County, Ohio (the Village), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated August 30, 2012 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 and the Village implemented GASB statement 54. We also noted 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(A) mandates 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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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 an instance of noncompliance we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-001.

We also noted certain matters not requiring inclusion in this report that we reported to the Village's management in a separate letter dated August 30, 2012.

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Village's response and, accordingly, we express no opinion on it.

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

Dave Yost
Auditor of State

August 30, 2012

SCHEDULE OF FINDINGS
DECEMBER 31, 2011 AND 2010

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

FINDING NUMBER 2011-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D)(1) provides in part that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required for the order or contract has been lawfully appropriated for such purpose 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 be void, and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the 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 <u>main</u> exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, each of which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

   Amounts 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 the Council.

2. **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.

3. **Super Blanket Certificate** – The 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 may, but need not, be limited to a specific vendor. 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.

Eighty-eight percent of the transactions tested were not certified by the Fiscal Officer at the time the commitment was incurred, and there was no evidence the Village followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

FINDING NUMBER 2011-001
(Continued)

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 help reduce the possibility of Village funds being over expended or exceeding budgetary spending limitations as set by the Council.

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

Officials' Response:

The Officials stated they would address and will strengthen controls to correct this issue.

VILLAGE OF REPUBLIC
SENECA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011 AND 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2009-001	The Village did not record Ohio Public Works Grant activity.	Yes	

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Dave Yost • Auditor of State

VILLAGE OF REPUBLIC

SENECA 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 18, 2012