



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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VILLAGE OF PROSPECT  
MARION COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2014 and 2013  
Fiscal Years Audited Under GAGAS: 2014 and 2013





# Dave Yost • Auditor of State

Members of Council  
Village of Prospect  
200 North East Street  
Prospect, Ohio 43342

We have reviewed the *Independent Auditor's Report* of the Village of Prospect, Marion County, prepared by Balestra, Harr & Scherer, CPAs., Inc., for the audit period January 1, 2013 through December 31, 2014. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

June 25, 2015

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**Village of Prospect**  
**Marion County, Ohio**  
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*For the Fiscal Years Ended December 31, 2014 and 2013*

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# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## Independent Auditor's Report

Village of Prospect  
Marion County  
200 North East Street  
Prospect, Ohio 43342

To the Village Council:

### Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Prospect, Marion County, (the Village), as of and for the years ended December 31, 2014 and 2013.

### Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Village's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Village's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinion.

### Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Village prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory basis of accounting GAAP are not reasonably determinable, we presume they are material.

Though the Village does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis permitted is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

#### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2014 and 2013, or changes in financial position or cashflows thereof for the years then ended.

#### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Prospect, Marion County, as of December 31, 2014 and 2013, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2015, on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standard* in considering the Village's internal control over financial reporting and compliance.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Worthington, Ohio  
May 22, 2015



**VILLAGE OF PROSPECT  
MARION COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2014**

|   | <u>Governmental Fund Types</u> |                            |                         | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|---|--------------------------------|----------------------------|-------------------------|---|
|   | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> |   |
| <b>Cash Receipts:</b>                                 |                                |                            |                         |   |
| Property and Local Taxes                              | \$ 131,685                     | \$ 21,913                  | \$ -                    | \$ 153,598                              |
| Intergovernmental                                     | 32,307                         | 67,617                     | -                       | 99,924                                  |
| Fines, Licenses, and Permits                          | 2,450                          | -                          | -                       | 2,450                                   |
| Earnings on Investments                               | 1,445                          | -                          | -                       | 1,445                                   |
| Miscellaneous   | 4,616                          | 955                        | -                       | 5,571                                   |
|   | <u>172,503</u>                 | <u>90,485</u>              | <u>-</u>                | <u>262,988</u>                          |
| <b>Total Cash Receipts</b>                            |                                |                            |                         |   |
| <b>Cash Disbursements:</b>                            |                                |                            |                         |   |
| Current:  |                                |                            |                         |   |
| Security of Persons & Property                        | 30,465                         | -                          | -                       | 30,465                                  |
| Public Health Service                                 | 2,360                          | -                          | -                       | 2,360                                   |
| Leisure Time Activities                               | 5,748                          | -                          | -                       | 5,748                                   |
| Transportation  | -                              | 114,332                    | -                       | 114,332                                 |
| General Government                                    | 52,473                         | -                          | -                       | 52,473                                  |
|   | <u>91,046</u>                  | <u>114,332</u>             | <u>-</u>                | <u>205,378</u>                          |
| <b>Total Cash Disbursements</b>                       |                                |                            |                         |   |
| <i>Excess of Receipts Over (Under) Disbursements</i>  | 81,457                         | (23,847)                   | -                       | 57,610                                  |
| <b>Other Financing Receipts (Disbursements):</b>      |                                |                            |                         |   |
| Other Financing Sources                               | 33,038                         | -                          | -                       | 33,038                                  |
|   | <u>33,038</u>                  | <u>-</u>                   | <u>-</u>                | <u>33,038</u>                           |
| <b>Total Other Financing Receipts (Disbursements)</b> |                                |                            |                         |   |
| <i>Net Change in Fund Cash Balances</i>               | 114,495                        | (23,847)                   | -                       | 90,648                                  |
| Fund Cash Balances, January 1                         | 90,811                         | 67,532                     | 531                     | 158,874                                 |
| Restricted  | -                              | 43,685                     | 531                     | 44,216                                  |
| Assigned  | 8,443                          | -                          | -                       | 8,443                                   |
| Unassigned  | 196,863                        | -                          | -                       | 196,863                                 |
|   | <u>196,863</u>                 | <u>-</u>                   | <u>-</u>                | <u>196,863</u>                          |
| <b>Fund Cash Balances, December 31</b>                | <u>\$ 205,306</u>              | <u>\$ 43,685</u>           | <u>\$ 531</u>           | <u>\$ 249,522</u>                       |

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

**VILLAGE OF PROSPECT  
MARION 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, 2014**

|  | <u><b>Proprietary<br/>Fund Type</b></u> |
|--|---|
|  | <u><b>Enterprise</b></u>                |
| <b>Operating Cash Receipts:</b>                  |   |
| Charges for Services                             | \$ 1,247,260                            |
| <br>Total Operating Cash Receipts                | <br>1,247,260                           |
| <b>Operating Cash Disbursements</b>              |   |
| Personal services                                | 214,716                                 |
| Fringe benefits                                  | 132,257                                 |
| Contractual services                             | 730,203                                 |
| Supplies and Materials                           | 50,136                                  |
| Other  | 1,132                                   |
| <br>Total Operating Cash Disbursements           | <br><u>1,128,444</u>                    |
| <br><i>Operating Income (Loss)</i>               | <br>118,816                             |
| <b>Non-Operating Receipts (Disbursements)</b>    |   |
| Property and other Taxes                         | 28,319                                  |
| Intergovernmental                                | 3,348                                   |
| Miscellaneous Receipts                           | 31,074                                  |
| Capital Outlay                                   | (55,895)                                |
| Debt Service:                                    |   |
| Principal  | (154,292)                               |
| Interest   | (2,900)                                 |
| Other Financing Uses                             | (36,281)                                |
| <br>Total Non-Operating Receipts (Disbursements) | <br><u>(186,627)</u>                    |
| <br><i>Net Change in Fund Cash Balances</i>      | <br>(67,811)                            |
| <br>Fund Cash Balances, January 1                | <br><u>1,405,620</u>                    |
| <br><b>Fund Cash Balances, December 31</b>       | <br><u><u>\$ 1,337,809</u></u>          |

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

**VILLAGE OF PROSPECT  
MARION COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN FUND BALANCES (CASH BASIS)  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2013**

|   | <u>Governmental Fund Types</u> |                            |                         | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|---|--------------------------------|----------------------------|-------------------------|---|
|   | <u>General</u>                 | <u>Special<br/>Revenue</u> | <u>Debt<br/>Service</u> |   |
| <b>Cash Receipts:</b>                   |                                |                            |                         |   |
| Property and Local Taxes                | \$ 82,281                      | \$ 19,301                  | \$ -                    | \$ 101,582                              |
| Intergovernmental                       | 23,601                         | 54,289                     | -                       | 77,890                                  |
| Special Assessments                     | 710                            | -                          | -                       | 710                                     |
| Fines, Licenses, and Permits            | 700                            | -                          | -                       | 700                                     |
| Earnings on Investments                 | 845                            | -                          | -                       | 845                                     |
| Miscellaneous                           | <u>10,841</u>                  | <u>191</u>                 | <u>-</u>                | <u>11,032</u>                           |
| Total Cash Receipts                     | <u>118,978</u>                 | <u>73,781</u>              | <u>-</u>                | <u>192,759</u>                          |
| <b>Cash Disbursements:</b>              |                                |                            |                         |   |
| Current:                                |                                |                            |                         |   |
| Security of Persons & Property          | 38,370                         | -                          | -                       | 38,370                                  |
| Public Health Service                   | 1,049                          | -                          | -                       | 1,049                                   |
| Leisure Time Activities                 | 12,266                         | -                          | -                       | 12,266                                  |
| Transportation                          | -                              | 52,038                     | -                       | 52,038                                  |
| General Government                      | <u>57,243</u>                  | <u>-</u>                   | <u>-</u>                | <u>57,243</u>                           |
| Total Cash Disbursements                | <u>108,928</u>                 | <u>52,038</u>              | <u>-</u>                | <u>160,966</u>                          |
| <i>Net Change in Fund Cash Balances</i> | 10,050                         | 21,743                     | -                       | 31,793                                  |
| Fund Cash Balances, January 1           | <u>80,761</u>                  | <u>45,789</u>              | <u>531</u>              | <u>127,081</u>                          |
| Restricted                              | -                              | 67,532                     | 531                     | 68,063                                  |
| Assigned                                | 9,798                          | -                          | -                       | 9,798                                   |
| Unassigned                              | <u>81,013</u>                  | <u>-</u>                   | <u>-</u>                | <u>81,013</u>                           |
| <b>Fund Cash Balances, December 31</b>  | <u>\$ 90,811</u>               | <u>\$ 67,532</u>           | <u>\$ 531</u>           | <u>\$ 158,874</u>                       |

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

**VILLAGE OF PROSPECT  
MARION 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, 2013**

|   | <b>Proprietary<br/>Fund Type</b> |
|---|----------------------------------|
|   | <b>Enterprise</b>                |
| <b>Operating Cash Receipts:</b>               |                                  |
| Charges for Services                          | \$ 1,294,986                     |
| Miscellaneous                                 | 3,192                            |
| Total Operating Cash Receipts                 | 1,298,178                        |
| <b>Operating Cash Disbursements</b>           |                                  |
| Personal services                             | 229,292                          |
| Fringe benefits                               | 157,749                          |
| Contractual services                          | 725,025                          |
| Supplies and Materials                        | 61,433                           |
| Other   | 1,423                            |
| Total Operating Cash Disbursements            | 1,174,922                        |
| <i>Operating Income (Loss)</i>                | 123,256                          |
| <b>Non-Operating Receipts (Disbursements)</b> |                                  |
| Property and Other Local Taxes                | 29,732                           |
| Intergovernmental                             | 3,294                            |
| Miscellaneous Receipts                        | 29,856                           |
| Capital Outlay                                | (34,385)                         |
| Debt Service:                                 |                                  |
| Principal                                     | (154,794)                        |
| Interest                                      | (10,451)                         |
| Total Non-Operating Receipts (Disbursements)  | (136,748)                        |
| <i>Net Change in Fund Cash Balances</i>       | (13,492)                         |
| Fund Cash Balances, January 1                 | 1,419,112                        |
| <b>Fund Cash Balances, December 31</b>        | <b>\$ 1,405,620</b>              |

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

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Prospect, Marion County, Ohio, (the Village) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly-elected six-member Council. The Village provides sewer, solid waste, and electric utilities, park operations (leisure time activities), and pool services. The Village contracts with the Marion County Sheriff's department to provide security of persons and property.

The Village participates in the Public Entity Pool of Ohio public entity risk pool and two joint ventures. Notes 7 and 8 to the financial statements provide additional information for these entities. These organizations are:

Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) – The Village is a participant with twenty other subdivisions within the State of Ohio in a joint venture for the purpose of providing electric power and energy to its participants on a cooperative basis.

Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5) - The Village is a financing participant with an ownership percentage of 0.27%, and shares participation with forty-one other subdivisions within the State of Ohio. Financing participants own undivided interests, as tenants in common, without right of partition in the project.

Public Entities Pool of Ohio (PEP) - The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local Villages. PEP provides property and casualty coverage for its members.

The Village's management believes these financial statements represent 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 financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

Money market mutual funds (including STAR Ohio) are recorded at share values the mutual funds report.

**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 accounts for and reports all financial resources not accounted for and reported in another fund.

**2. Special Revenue Funds:**

These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Village had the following significant Special Revenue Funds:

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

**3. Debt Service Funds:**

These funds account for resources the Village accumulates to pay bond and note debt. The Village had the following significant debt service fund:

**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 Funds:

*Electric Operating Fund* – This fund receives charges for services from residents to cover the cost of providing electric services.

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

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Fund Accounting (continued)**

*Sewer Fund* – This fund receives charges for services from residents to cover the cost of providing sewer services.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. 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 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 2014 and 2013 budgetary activity appears in Note 3.

**F. Fund Balance**

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.

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Fund Balance (continued)**

**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.

**G. Property, Plant and Equipment**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**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.



**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**2. EQUITY IN POOLED DEPOSITS AND INVESTMENTS**

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

|                                 | <u>2014</u>        | <u>2013</u>        |
|---------------------------------|--------------------|--------------------|
| Demand deposits                 | \$123,194          | \$500,622          |
| Certificates of deposit         | <u>900,099</u>     | <u>500,000</u>     |
| Total deposits                  | <u>1,023,294</u>   | <u>1,000,666</u>   |
| STAR Ohio                       | <u>564,038</u>     | <u>563,872</u>     |
| Total Investment                | <u>564,038</u>     | <u>563,872</u>     |
| Total deposits and investments: | <u>\$1,587,331</u> | <u>\$1,564,494</u> |

**Deposits:** The Village’s deposits are insured by the Federal Deposit Insurance Corporation, or collateralized by securities specifically pledged by the financial institution to the Village.

**Investments:** Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2014 and December 31, 2013, was as follows:

**2014 Budgeted vs. Actual Receipts**

| <u>Fund Type</u> | <u>Budgeted Receipts</u> | <u>Actual Receipts</u> | <u>Variance</u>   |
|------------------|--------------------------|------------------------|-------------------|
| General          | \$152,825                | \$205,541              | \$52,716          |
| Special Revenue  | 86,760                   | 90,485                 | 3,725             |
| Debt Service     | -                        | -                      | -                 |
| Enterprise       | <u>1,458,503</u>         | <u>1,310,001</u>       | <u>(148,502)</u>  |
| Total            | <u>\$1,698,088</u>       | <u>\$1,606,027</u>     | <u>(\$92,061)</u> |

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**3. BUDGETARY ACTIVITY (CONTINUED)**

**2014 Budgeted vs. Actual Budgetary Basis Expenditures**

| <u>Fund Type</u> | <u>Appropriation<br/>Authority</u> | <u>Disbursements</u> | <u>Variance</u>    |
|------------------|------------------------------------|----------------------|--------------------|
| General          | \$193,783                          | \$99,489             | \$94,294           |
| Special Revenue  | 123,354                            | 115,689              | 7,665              |
| Debt Service     | 993                                | -                    | 993                |
| Enterprise       | <u>2,839,604</u>                   | <u>1,450,211</u>     | <u>1,389,393</u>   |
| Total            | <u>\$3,157,734</u>                 | <u>\$1,665,389</u>   | <u>\$1,492,345</u> |

**2013 Budgeted vs. Actual Receipts**

| <u>Fund Type</u> | <u>Budgeted Receipts</u> | <u>Actual Receipts</u> | <u>Variance</u> |
|------------------|--------------------------|------------------------|-----------------|
| General          | \$78,826                 | \$118,978              | \$40,152        |
| Special Revenue  | 63,887                   | 73,781                 | 9,894           |
| Debt Service     | -                        | -                      | -               |
| Enterprise       | <u>1,311,825</u>         | <u>1,361,060</u>       | <u>49,235</u>   |
| Total            | <u>\$1,454,538</u>       | <u>\$1,553,819</u>     | <u>\$99,281</u> |

**2013 Budgeted vs. Actual Budgetary Basis Expenditures**

| <u>Fund Type</u> | <u>Appropriation<br/>Authority</u> | <u>Disbursements</u> | <u>Variance</u>    |
|------------------|------------------------------------|----------------------|--------------------|
| General          | \$131,317                          | \$118,726            | \$12,591           |
| Special Revenue  | 80,288                             | 56,506               | 23,782             |
| Debt Service     | 973                                | -                    | 973                |
| Enterprise       | <u>2,734,521</u>                   | <u>1,529,708</u>     | <u>1,204,813</u>   |
| Total            | <u>\$2,947,099</u>                 | <u>\$1,704,940</u>   | <u>\$1,242,159</u> |

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**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.

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, 2014 was as follows:

|                        | Principal   | Interest Rate |
|------------------------|-------------|---------------|
| OPWC Loan              | \$185,519   | 0.00%         |
| OWDA Loan              | 1,459,016   | 0.00%         |
| AMP Ohio Payable – JV5 | 165,914     | variable      |
| Total                  | \$1,810,449 |               |

The Village entered into an agreement in 2004 with the Ohio Public Works Commission (OPWC) to loan \$322,646 for water system improvements. The loan will be repaid in semi-annual installments of \$8,066, over 20 years. The loan is scheduled to be paid off on July 1, 2026.

The Ohio Water Development Authority (OWDA) loan relates to a sewer plant project the Ohio Environmental Protection Agency mandated. The OWDA approved \$2,244,642 in loans to the Village for this project. The Village will repay the loan in semiannual installments of \$56,116, over 20 years. Sewer receipts collateralize the loan. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Information regarding AMP Ohio Payable – JV5 is included in Note 8 to the financial statements. No amortization schedule is available for this loan.

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

| Year Ending<br>December<br>31: | OPWC<br>Loan | OWDA<br>Loans |
|--------------------------------|--------------|---------------|
| 2015                           | \$16,132     | \$112,232     |
| 2016                           | 16,132       | 112,232       |
| 2017                           | 16,132       | 112,232       |
| 2018                           | 16,132       | 112,232       |
| 2019                           | 16,132       | 112,232       |
| 2020-2024                      | 80,660       | 561,160       |
| 2025-2027                      | 24,199       | 336,696       |
| Totals                         | \$185,519    | \$1,459,016   |

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**6. RETIREMENT SYSTEMS**

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

Contribution rates are also prescribed by the Ohio Revised Code. PERS members contributed 10% of gross wages. The Village contributed an amount equal to 14% of participants' gross wages. The Village has paid all contributions required through December 31, 2014.

**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, 2013, 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.

Financial Position

PEP's financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2012 and 2013 (the latest information available):

|              | <u>2012</u>         | <u>2013</u>         |
|--------------|---------------------|---------------------|
| Assets       | \$34,389,569        | \$34,411,883        |
| Liabilities  | <u>(14,208,353)</u> | <u>(12,760,194)</u> |
| Net Position | <u>\$20,181,216</u> | <u>\$21,651,689</u> |

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**7. RISK MANAGEMENT (CONTINUED)**

At December 31, 2012 and 2013, respectively, the liabilities above include approximately \$13.1 million and \$11.6 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$11.1 million of unpaid claims to be billed to approximately 475 member governments in the future, as of December 31, 2012 and 2013, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2014, the Government's share of these unpaid claims collectible in future years is approximately \$17,000.

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.

| <b><u>Contributions to PEP</u></b> |                    |
|------------------------------------|--------------------|
| <b><u>2013</u></b>                 | <b><u>2014</u></b> |
| \$20,971                           | \$24,661           |

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**

**A. Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1)**

The Village's Electric Enterprise Fund participates in a joint venture agreement with 20 other municipal electric systems that have formed the Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV1) for the purpose of providing electric power and energy to its participants on a cooperative basis. The electric generating facilities of OMEGA JV1, known as the Engle Units, are located in the City. Title to these six diesel-powered generating units was transferred to the 21 municipal electric systems from American Municipal Power-Ohio, Incorporated (AMP-Ohio), a non-profit trade association and wholesale power supplier for most of Ohio's 85 municipal electric systems. Each member has a contract, which provides for AMPOhio to purchase the right to each participant's share of power and energy that is made available through the joint venture contract. Complete financial statements for OMEGA JV1 may be obtained from AMP or from the State Auditor's website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

**B. Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)**

The Village of Prospect is a Financing Participant with an ownership percentage of .27%, 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.

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**8. JOINT VENTURES (CONTINUED)**

**B. Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) (continued)**

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.

Also, 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 position 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, 2014 Prospect 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. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. Due to scheduled principal repayments, the resulting note receivable has been reduced at December 31, 2014 to \$57,679,473. AMP will continue to collect debt service from the OMEGA JV5 participants until the note is paid in full.

The Village's net investment to date in OMEGA JV5 was \$8,067 at December 31, 2014. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at [www.ohioauditor.gov](http://www.ohioauditor.gov).

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**9. AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT**

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 1,088 kilowatts of a total 771,281 kilowatts, giving the Village an 0.14 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed impaired and participants were obligated to pay costs already incurred. In prior years, payment of these costs was not made due to AMP's pursuit of legal action to void them. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share at March 31, 2014 of the impaired costs is \$188,603. The Village received a credit of \$58,030 related to their participation in the AMP Freemont Energy Center (AFEC) Project, and another credit of \$49,205 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of \$81,368. AMP financed these costs on its revolving line of credit. The Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the Village's payments. The Village made payments in 2014 totaling \$10,849 leaving a net impaired cost estimate of \$71,718 at December 31, 2014.

The Village intends to recover these costs and repay AMP over the next 7 years through a power cost adjustment.

**10. SEGMENT INFORMATION**

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric Generation Agency (OMEGA) Joint Ventures as described in Note 8. The Village is liable for debt related to the financing of the OMEGA joint ventures. The activity is accounted for in the Village's Electric Fund, which is reported as part of the combined Enterprise Fund Type in the financial statements. Summary financial information for the Electric Fund is presented below:

**VILLAGE OF PROSPECT  
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2014 AND 2013**

**10. SEGMENT INFORMATION (CONTINUED)**

|   | <u>2014</u>             | <u>2013</u>             |
|---|-------------------------|-------------------------|
| Total Assets                                | \$874,653               | \$933,169               |
| Total Liabilities                           | \$237,631               | \$274,409               |
| <br><b>Condensed Operating Information:</b> |                         |                         |
| Operating Receipts                          |                         |                         |
| Charges for Services                        | <u>846,049</u>          | <u>876,059</u>          |
| Total Operating Receipts                    | 846,049                 | 876,059                 |
| <br>Operating Expenses                      | <br><u>863,861</u>      | <br><u>857,476</u>      |
| <br>Operating Income (Loss)                 | <br>(17,812)            | <br>18,583              |
| <br>Nonoperating Receipts (Disbursements)   |                         |                         |
| Principal Payments                          | (25,928)                | (18,363)                |
| Interest Payments                           | (2,900)                 | (10,451)                |
| Other Nonoperating Receipts (Disbursements) | <u>(11,876)</u>         | <u>16,483</u>           |
| Change in Fund Cash Balance                 | (58,516)                | 6,252                   |
| Beginning Fund Cash Balance                 | <u>933,169</u>          | <u>926,917</u>          |
| Ending Fund Cash Balance                    | <u><u>\$874,653</u></u> | <u><u>\$933,169</u></u> |





## Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Village of Prospect  
Marion County  
200 North East Street  
Prospect, Ohio 43342

To the Village Council:

We have audited, in accordance with the auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Prospect, Marion County, (the Village) as of and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements, and have issued our report thereon dated May 22, 2015, wherein we noted the Village followed financial reporting provisions that Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

### Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Village's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting that we consider a material weakness.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2014-001 described in the accompanying schedule of findings to be a material weakness.

**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, opining 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

**Entity's Response to Findings**

The entity'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.

**Purpose of this Report**

This report only describes the scope of our internal control testing and compliance testing and our testing results, and does not opine on the effectiveness of the Village's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Village's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
Worthington, Ohio  
May 22, 2015

**Village of Prospect  
Marion County  
Schedule of Findings  
December 31, 2014 and 2013**

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

|                       |                 |
|-----------------------|-----------------|
| <b>FINDING NUMBER</b> | <b>2014-001</b> |
|-----------------------|-----------------|

**MATERIAL WEAKNESS**

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

Material and immaterial misstatements were identified during the course of the audit which have not been prevented or detected by the Village's internal controls over financial reporting. Misstatements were identified in the following areas:

- Property Tax revenues,
- Intergovernmental revenues,
- Principal Payments expense,
- Interest and Fiscal Charges expense,
- Other Financing Sources
- Other Financing Uses
- Transfers In
- Transfers Out
- Fund Balance

All of the above noted adjustments have been posted to the financial statements and to the Village's UAN accounting system.

To ensure the Village's financial statements and notes to the financial statements are complete and accurate, we recommend the Fiscal Officer review the Ohio Village Officer's Handbook for guidance on the correct line item to post various receipts and expenditures of the Village.

**Client Response:** The Fiscal Officer will be more aware of proper posting of revenues and expenditures.

**Village of Prospect  
Marion County  
Schedule of Prior Audit Findings  
December 31, 2014 and 2013**

| Finding Number | Finding Summary                           | Fully Corrected? | Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain: |
|----------------|---|------------------|---|
| 2012-001       | Noncompliance/Material Weakness – KWH Tax | Yes              |   |
| 2012-002       | Material Weakness – Financial Reporting   | No               | Reissued as 2014-001  |



# Dave Yost • Auditor of State

**VILLAGE OF PROSPECT**

**MARION COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JULY 7, 2015**