



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF PROSPECT
MARION COUNTY

REGULAR AUDIT

For the Years Ended December 31, 2016 and 2015
Fiscal Years Audited Under GAGAS: 2016 and 2015



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 BHM CPA Group, Inc., for the audit period January 1, 2015 through December 31, 2016. 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

October 19, 2017

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Village of Prospect
Marion County, Ohio
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For the Fiscal Years Ended December 31, 2016 and 2015

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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 of the cash balance, receipts, and disbursements by fund type and related notes of the Village of Prospect, Marion County, (the Village), as of and for the years ended December 31, 2016 and 2015.

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, to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and 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 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, 2016 and 2015, or changes in financial position 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, 2016 and 2015, 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 June 23, 2017, 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.



BHM CPA Group, Inc.
Columbus, Ohio
June 23, 2017

**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, 2016**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Local Taxes	\$ 146,070	\$ 41,577	\$ -	\$ 187,647
Intergovernmental	18,465	32,044	-	50,509
Special Assessments	-	2,260	-	2,260
Fines, Licenses, and Permits	1,586	-	-	1,586
Earnings on Investments	5,059	-	-	5,059
Miscellaneous	590	3,075	-	3,665
	<u>171,770</u>	<u>78,956</u>	<u>-</u>	<u>250,726</u>
Total Cash Receipts				
Cash Disbursements:				
Current:				
Security of Persons & Property	35,697	-	-	35,697
Leisure Time Activities	13,220	-	-	13,220
Transportation	-	65,488	-	65,488
General Government	54,346	-	-	54,346
Capital Outlay	20,254	20,254	-	40,508
	<u>123,517</u>	<u>85,742</u>	<u>-</u>	<u>209,259</u>
Total Cash Disbursements				
<i>Excess of Receipts Over (Under) Disbursements</i>	48,253	(6,786)	-	41,467
Other Financing Receipts (Disbursements):				
Transfers-Out	(4,000)	-	-	(4,000)
Advances-In	20,254	20,254	-	40,508
Advances-Out	(3,413)	(3,413)	-	(6,826)
Other Uses	16,539	-	-	16,539
	<u>29,380</u>	<u>16,841</u>	<u>-</u>	<u>46,221</u>
Total Other Financing Receipts (Disbursements)				
<i>Net Change in Fund Cash Balances</i>	77,633	10,055	-	87,688
Fund Cash Balances, January 1	<u>250,371</u>	<u>26,218</u>	<u>531</u>	<u>277,120</u>
Restricted	-	36,273	-	36,273
Assigned	-	-	531	531
Unassigned	<u>328,004</u>	<u>-</u>	<u>-</u>	<u>328,004</u>
Fund Cash Balances, December 31	<u>\$ 328,004</u>	<u>\$ 36,273</u>	<u>\$ 531</u>	<u>\$ 364,808</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, 2016**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 1,282,770
Total Operating Cash Receipts	1,282,770
Operating Cash Disbursements	
Personal services	243,263
Fringe benefits	150,555
Contractual services	760,971
Supplies and Materials	52,961
Other	1,462
Total Operating Cash Disbursements	1,209,212
<i>Operating Income (Loss)</i>	73,558
Non-Operating Receipts (Disbursements)	
Property and other Taxes	27,932
Miscellaneous Receipts	22,909
Capital Outlay	(212,564)
Debt Service:	
Principal	(171,262)
Interest	(24,349)
Other Financing Uses	(16,539)
Total Non-Operating Receipts (Disbursements)	(373,873)
<i>Income (Loss) Before Transfers</i>	(300,315)
Other Financing Receipts (Disbursements):	
Transfers-In	4,000
Advances-In	54,160
Advances-Out	(162,028)
Total Other Financing Receipts (Disbursements)	(103,868)
<i>Net Change in Fund Cash Balances</i>	(404,183)
Fund Cash Balances, January 1	1,144,798
Fund Cash Balances, December 31	\$ 740,615

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, 2015**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	
Cash Receipts:				
Property and Local Taxes	\$ 147,267	\$ 43,410	\$ -	\$ 190,677
Intergovernmental	18,892	30,331	-	49,223
Special Assessments	-	1,281	-	1,281
Fines, Licenses, and Permits	1,401	-	-	1,401
Earnings on Investments	2,401	-	-	2,401
Miscellaneous	<u>13,497</u>	<u>630</u>	<u>-</u>	<u>14,127</u>
Total Cash Receipts	<u>183,458</u>	<u>75,652</u>	<u>-</u>	<u>259,110</u>
Cash Disbursements:				
Current:				
Security of Persons & Property	23,013	-	-	23,013
Public Health Service	2,578	-	-	2,578
Leisure Time Activities	12,097	-	-	12,097
Transportation	-	96,119	-	96,119
General Government	109,244	-	-	109,244
Capital Outlay	<u>11,454</u>	<u>11,454</u>	<u>-</u>	<u>22,908</u>
Total Cash Disbursements	<u>158,386</u>	<u>107,573</u>	<u>-</u>	<u>265,959</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	25,072	(31,921)	-	(6,849)
Other Financing Receipts (Disbursements):				
Advances-In	11,454	14,454	-	25,908
Advances-Out	(8,000)	-	-	(8,000)
Other Sources	<u>16,539</u>	<u>-</u>	<u>-</u>	<u>16,539</u>
Total Other Financing Receipts (Disbursements)	<u>19,993</u>	<u>14,454</u>	<u>-</u>	<u>34,447</u>
<i>Net Change in Fund Cash Balances</i>	45,065	(17,467)	-	27,598
Fund Cash Balances, January 1	<u>205,306</u>	<u>43,685</u>	<u>531</u>	<u>249,522</u>
Restricted	-	26,218	-	26,218
Assigned	-	-	531	531
Unassigned	<u>250,371</u>	<u>-</u>	<u>-</u>	<u>250,371</u>
Fund Cash Balances, December 31	<u>\$ 250,371</u>	<u>\$ 26,218</u>	<u>\$ 531</u>	<u>\$ 277,120</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, 2015**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 1,251,176
Miscellaneous	5,852
	1,257,028
Operating Cash Disbursements:	
Personal services	231,658
Fringe benefits	145,355
Contractual services	687,816
Supplies and Materials	58,249
Other	730
	1,123,808
<i>Operating Income (Loss)</i>	133,220
Non-Operating Receipts (Disbursements)	
Property and Other Local Taxes	28,536
Miscellaneous Receipts	22,885
Capital Outlay	(108,483)
Debt Service:	
Principal	(159,608)
Interest	(16,519)
Other Financing Uses	(29,311)
	(262,500)
<i>Income (Loss) Before Transfers and Advances</i>	(129,280)
Other Financing Receipts (Disbursements):	
Advances-In	27,908
Advances-Out	(91,639)
	(63,731)
<i>Net Change in Fund Cash Balances</i>	(193,011)
Fund Cash Balances, January 1	1,337,809
Fund Cash Balances, December 31	\$ 1,144,798

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, 2016 AND 2015**

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, 2016 AND 2015**

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, 2016 AND 2015**

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 2016 and 2015 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, 2016 AND 2015**

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, 2016 AND 2015**

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>2016</u>	<u>2015</u>
Demand deposits	\$258,516	\$579,946
Certificates of deposit	<u>279,218</u>	<u>277,960</u>
Total deposits	<u>537,734</u>	<u>857,906</u>
STAR Ohio	<u>567,689</u>	<u>564,012</u>
Total deposits and investments:	<u>\$1,105,423</u>	<u>\$1,421,918</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, 2016 and December 31, 2015, was as follows:

2016 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$196,708	\$208,563	\$11,855
Special Revenue	83,500	99,210	15,710
Enterprise	<u>1,458,503</u>	<u>1,391,771</u>	<u>(66,732)</u>
Total	<u>\$1,738,711</u>	<u>\$1,699,544</u>	<u>(\$39,167)</u>

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

3. BUDGETARY ACTIVITY (CONTINUED)

2016 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Disbursements</u>	<u>Variance</u>
General	\$395,000	\$130,930	\$264,070
Special Revenue	115,665	89,155	26,510
Enterprise	<u>2,338,283</u>	<u>1,795,954</u>	<u>542,329</u>
Total	<u>\$2,848,948</u>	<u>\$2,016,039</u>	<u>\$832,909</u>

2015 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$321,526	\$211,451	(\$110,075)
Special Revenue	108,485	90,106	(18,379)
Enterprise	<u>2,547,489</u>	<u>1,336,357</u>	<u>(1,211,132)</u>
Total	<u>\$2,977,500</u>	<u>\$1,637,914</u>	<u>(\$1,339,586)</u>

2015 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Disbursements</u>	<u>Variance</u>
General	\$321,526	\$166,386	\$155,140
Special Revenue	109,841	107,573	2,268
Enterprise	<u>2,561,989</u>	<u>1,529,368</u>	<u>1,032,621</u>
Total	<u>\$2,993,356</u>	<u>\$1,803,327</u>	<u>\$1,190,029</u>

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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, 2016 was as follows:

	Principal	Interest Rate
OPWC Loan	\$153,254	0.00%
OWDA Loan	1,234,552	0.00%
AMP Ohio Payable – JV5	91,773	variable
Total	\$1,479,579	

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 December 31:	OPWC Loan	OWDA Loans
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	\$153,255	\$1,234,552

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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, 2016.

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, 2016, 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, 2015 and 2016:

	<u>2015</u>	<u>2016</u>
Assets	\$38,307,677	\$42,182,281
Liabilities	<u>(12,759,127)</u>	<u>(13,396,700)</u>
Net Position	<u>\$25,548,550</u>	<u>\$28,785,581</u>

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

7. RISK MANAGEMENT (CONTINUED)

At December 31, 2015 and 2016, respectively, the liabilities above include approximately \$11.5 million and \$12.0 million of estimated incurred claims payable. The assets above also include approximately \$11.5 million and \$11.5 million of unpaid claims to be billed to approximately 520 member governments in the future, as of December 31, 2015 and 2016, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, 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.

<u>Contributions to PEP</u>	
<u>2015</u>	<u>2016</u>
\$24,542	\$26,952

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 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.

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 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, 2016, Prospect has met its debt coverage obligation.

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

8. JOINT VENTURES (CONTINUED)

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. On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The Village's net investment to date in OMEGA JV5 was \$8,067 at December 31, 2016. 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 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, classified as Plant Held for Future use (PHFU), leaving an estimated net impaired cost balance of \$81,368. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact, either positively or negatively, the Village's net impaired cost balance. These amounts will be recorded as they become estimable.

In late 2016, AMP reached a Settlement in the Bechtel Corporation litigation. On December 8, 2016, at the AMPGS Participants meeting, options for the allocation of the Settlement funds were approved. The AMPGS Participants and the AMP Board of Trustees voted to allocate the Settlement among the

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

9. AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT (CONTINUED)

participants and the AMP General Fund based on each participant's original project share in kW including the AMP General Fund's project share.

Since March 31, 2014 the Village has made payments of \$46,756 to AMP toward its net impaired cost estimate. Also since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$1,894 and interest expense incurred on AMP's line-of-credit of \$1,650, resulting in a net impaired cost estimate at December 31, 2016 of \$38,156. The Village does have a potential PHFU Liability of \$50,609 resulting in a net total potential liability of \$88,765, assuming the assets making up the PHFU (principally the land comprising the Meigs County site) have no value and also assuming the Village's credit balance would earn zero interest. Stranded costs as well as PHFU costs are subject to change, including future borrowing costs on the AMP line of credit. Activities include items such as negative items as property taxes as well as positive items revenue from leases or sale of all or a portion of the Meigs County site property.

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:

	2016	2015
Total Assets	\$250,614	\$687,066
Total Liabilities	\$237,631	\$274,409
 Condensed Operating Information:		
Operating Receipts		
Charges for Services	854,771	832,282
Total Operating Receipts	854,771	832,282
 Operating Expenses	 992,301	 876,247
 Operating Income (Loss)	 (137,530)	 (43,965)
 Nonoperating Receipts (Disbursements)		
Principal Payments	(42,898)	(31,244)
Interest Payments	(24,350)	(23,213)
Other Nonoperating Receipts (Disbursements)	(231,674)	(102,485)
Change in Fund Cash Balance	(436,452)	(200,907)
Beginning Fund Cash Balance	687,066	887,973
Ending Fund Cash Balance	\$250,614	\$687,066

**VILLAGE OF PROSPECT
MARION COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

11. INTERFUND BALANCES

Outstanding advance at December 31, 2016, consisted of the following:

From	To	Amount Outstanding
Electric Operating	General	\$ 28,295
Electric Operating	Street Construction	28,295
Electric Operating	Sewer Operation	28,295
Electric Operating	Solid Waste Operation	28,295
General	Swimming Pool	1,000
General	State Highway	3,000
	Total	\$ 117,180

During 2015 and 2016 the Village decided to build a new equipment building using the Electric Operating Funds instead of obtaining a bank loan. The Village had determined that the above funds should repay the Electric Operating Fund based on usage. Each of the funds are responsible for 12.5% of the construction cost to be paid back to the Electric Fund over a ten-year period.



**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 cash balances, receipts, and disbursements by fund type the Village of Prospect, Marion County, (the Village) as of and for the years ended December 31, 2016 and 2015 and the related notes to the financial statements, and have issued our report thereon dated June 23, 2017, 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.

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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2016-001 to be a material.

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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2016-002.

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.

BHM CPA Group

BHM CPA Group, Inc.
Piketon, Ohio
June 23, 2017

**Village of Prospect
Marion County
Schedule of Findings
December 31, 2016 and 2015**

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

Finding 2016-001

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:

- Principal Payments expense,
- Interest and Fiscal Charges expense,
- Other Financing Sources
- Other Financing Uses
- Advance In
- Advance Out
- Capital Outlay
- 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.

Finding 2016-002

Material Non-compliance

GASB Cod. 1800.102 classifies "interfund loans" as exchange transactions, because they require repayment in an equal amount. Any advance must be clearly labeled as such, and must be distinguished from a transfer. In order to advance the cash from one fund to another;

- There must be statutory authority to use the money in the fund advancing the cash for the same purpose for which the fund receiving the cash was established.
- The debtor fund may repay advances from the creditor fund. That is, the AOS would not deem repaying advances to violate restrictions on use of the debtor's fund resources.
- When a fund ends the year with negative cash, it is not appropriate to present an advance on the budgetary statement to eliminate the negative cash fund balance.
- An allowable advance should not violate restrictions on resource use.

**Village of Prospect
Marion County
Schedule of Findings
December 31, 2016 and 2015**

Finding 2016-002 (Continued)

During 2015 and 2016 the Village constructed a new multipurpose building that would be used for housing various Village equipment. Instead of obtaining a bank loan for this project they elected to use the Electric Operating Fund's cash balance to finance the project. Ohio Revised Code (ORC) sections 731.56, 731.57 and 731.58 provide guidelines for the rules for issuance of manuscript or treasury debt investments. The Village did not comply with the requirements of these sections of the Ohio Revised Code in their financing of the construction of their new multipurpose building. The Village was using a ten-year period to repay the loan when if the debt was legal it would have only been issued for a five-year period. The Village also failed to obtain a legal opinion determining if this type of financing was legal under the Ohio Revised Code. Further, the Village failed to properly record these transactions within the UAN system nor were they able to provide us with any documentation that the Council authorized the Village to enter into such an agreement. The Village was not paying interest to the Electric Operating Fund contrary to the ORC.

The Village Administrator and Fiscal Officer should contact legal counsel to obtain an opinion concerning the legality of the financing agreement. Furthermore, Village should have a promissory note drafted and each fund receiving the advance should be charged the interest that these funds could have received while being invested on the open market. The Village also needs to take appropriate steps to produce documentation regarding each fund's use of the multipurpose building and ensure that repayments are made using the proper amounts.

Client Response: We did not receive a response from the client concerning the above finding.

**Village of Prospect
Marion County
Schedule of Prior Audit Findings
December 31, 2016 and 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2014-001	Material Weakness – Financial Reporting	No	Reissued as 2016-001

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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
NOVEMBER 9, 2017