

VILLAGE OF BEACH CITY

STARK COUNTY, OHIO

AUDIT REPORT

For the Years Ended December 31, 2011 and 2010

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Dave Yost • Auditor of State

Members of Council
Village of Beach City
PO Box 695
Beach City, Ohio 44608

We have reviewed the *Report of Independent Accountants* of the Village of Beach City, Stark County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2010 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Report of Independent Accountants* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Report of Independent Accountants* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Beach City 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 10, 2012

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VILLAGE OF BEACH CITY
STARK COUNTY, OHIO
Audit Report
For the Years Ended December 31, 2011 & 2010

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Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306

Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

REPORT OF INDEPENDENT ACCOUNTANTS

Village of Beach City
Stark County
105 East Main Street
Beach City, OH 44608

To the Village Council:

We have audited the accompanying financial statements of the Village of Beach City, Stark County (the Village), Ohio, as and for the years ended December 31, 2011 and 2010. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

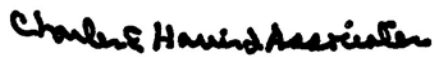
Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Village's larger (i.e. major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require villages to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2011 and 2010, do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2011 and 2010, or its changes in financial position or cash flows for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances as of December 31, 2011 and 2010 of the Village of Beach City, Stark County, Ohio, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

As described in Note 1, during 2011 the Village of Beach City, Stark County, Ohio adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2012, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Charles E. Harris & Associates, Inc.
May 14, 2012

**VILLAGE OF BEACH CITY
STARK COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
CASH RECEIPTS:				
Property and other local taxes	\$ 84,077	\$ 70,032	\$ 5,163	\$ 159,272
Intergovernmental revenue	45,220	53,780	-	99,000
Charges for services	36	72,245	-	72,281
Fines, licenses and permits	190	-	-	190
Interest	5,359	1,379	-	6,738
Miscellaneous	18,394	2,178	-	20,572
Total cash receipts	<u>153,276</u>	<u>199,614</u>	<u>5,163</u>	<u>358,053</u>
CASH DISBURSEMENTS:				
Current:				
Security of persons	74,880	102,287	-	177,167
Public health services	296	-	-	296
Leisure time activities	16,516	-	-	16,516
Transportation	14,184	63,966	-	78,150
General government	49,388	-	-	49,388
Capital outlay	-	1,599	1,685	3,284
Debt Service:				
Redemption of principal	-	27,208	-	27,208
Interest and other finance charges	-	7,232	-	7,232
Total cash disbursements	<u>155,264</u>	<u>202,292</u>	<u>1,685</u>	<u>359,241</u>
Total cash receipts over (under) cash disbursements	(1,988)	(2,678)	3,478	(1,188)
OTHER FINANCING RECEIPTS (DISBURSEMENTS)				
Other financing sources	-	5,947	-	5,947
Other financing uses	(2,227)	(4,680)	-	(6,907)
Total other financing receipts (disbursements)	<u>(2,227)</u>	<u>1,267</u>	<u>-</u>	<u>(960)</u>
Total cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	(4,215)	(1,411)	3,478	(2,148)
FUND CASH BALANCES, January 1, 2011	<u>14,097</u>	<u>64,887</u>	<u>2,321</u>	<u>81,305</u>
FUND CASH BALANCES				
Restricted	-	63,476	-	63,476
Committed	-	-	5,799	5,799
Unassigned	9,882	-	-	9,882
FUND CASH BALANCES, December 31, 2011	<u>\$ 9,882</u>	<u>\$ 63,476</u>	<u>\$ 5,799</u>	<u>\$ 79,157</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF BEACH CITY
STARK COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Enterprise Fund
OPERATING CASH RECEIPTS:	
Charges for services	\$ 1,661,713
Other operating receipts	640
Total operating cash receipts	1,662,353
OPERATING CASH DISBURSEMENTS:	
Personal services	384,674
Transportation	2,055
Contractual services	994,894
Materials and supplies	121,142
Total operating cash disbursements	1,502,765
NON-OPERATING CASH RECEIPTS:	
Sale of fixed assets	4,840
Other non-operating revenues	56,352
Interest	1,379
Total non-operating cash receipts	62,571
NON-OPERATING CASH DISBURSEMENTS:	
Capital outlay	34,072
Debt Service:	
Principal retirement	51,141
Interest and fiscal charges	74,251
Other non-operating cash disbursements	8,749
Total non-operating cash disbursements	168,213
Total cash receipts over (under) cash disbursements	53,946
FUND CASH BALANCES, January 1, 2011	1,544,011
FUND CASH BALANCES, December 31, 2011	\$ 1,597,957

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF BEACH CITY
STARK COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL TYPES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total</u>
CASH RECEIPTS:				
Property and other local taxes	\$ 87,356	\$ 79,727	\$ 5,203	\$ 172,286
Intergovernmental revenue	44,237	53,847	-	98,084
Charges for services	18	59,039	-	59,057
Fines, licenses and permits	264	-	-	264
Interest	3,770	1,715	-	5,485
Miscellaneous	18,619	5	-	18,624
Total cash receipts	<u>154,264</u>	<u>194,333</u>	<u>5,203</u>	<u>353,800</u>
CASH DISBURSEMENTS:				
Current:				
Security of persons	94,548	104,224	-	198,772
Public health services	317	-	-	317
Leisure time activities	5,951	-	-	5,951
Community environment	114	-	-	114
Transportation	14,162	64,540	-	78,702
General government	42,592	-	-	42,592
Capital outlay	98	4,286	8,539	12,923
Debt Service:				
Redemption of principal	-	25,414	-	25,414
Interest and other finance charges	-	8,477	-	8,477
Total cash disbursements	<u>157,782</u>	<u>206,941</u>	<u>8,539</u>	<u>373,262</u>
Total cash receipts over (under) cash disbursements	(3,518)	(12,608)	(3,336)	(19,462)
OTHER FINANCING RECEIPTS (DISBURSEMENTS)				
Other financing sources	10,000	1,070	-	11,070
Other financing uses	(3,671)	(1,366)	-	(5,037)
Total other financing receipts (disbursements)	<u>6,329</u>	<u>(296)</u>	<u>-</u>	<u>6,033</u>
Total cash receipts and other financing receipts over (under) cash disbursements and other financing disbursements	2,811	(12,904)	(3,336)	(13,429)
FUND CASH BALANCES, January 1, 2010, Restated	<u>11,286</u>	<u>77,791</u>	<u>5,657</u>	<u>94,734</u>
FUND CASH BALANCES, December 31, 2010	<u>\$ 14,097</u>	<u>\$ 64,887</u>	<u>\$ 2,321</u>	<u>\$ 81,305</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF BEACH CITY
STARK COUNTY
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND BALANCES
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Enterprise Fund
OPERATING CASH RECEIPTS:	
Charges for services	\$ 2,091,320
Other operating receipts	2,850
Total operating cash receipts	2,094,170
OPERATING CASH DISBURSEMENTS:	
Personal services	395,552
Transportation	3,763
Contractual services	1,270,006
Materials and supplies	167,924
Total operating cash disbursements	1,837,245
NON-OPERATING CASH RECEIPTS:	
Sale of fixed assets	12,659
Other non-operating revenues	44,443
Interest	2,034
Total non-operating cash receipts	59,136
NON-OPERATING CASH DISBURSEMENTS:	
Capital outlay	9,640
Debt Service:	
Principal retirement	50,598
Interest and fiscal charges	77,609
Other non-operating cash disbursements	9,491
Total non-operating cash disbursements	147,338
Total cash receipts over (under) cash disbursements	168,723
FUND CASH BALANCES, January 1, 2010	1,375,288
FUND CASH BALANCES, December 31, 2010	\$ 1,544,011

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Beach City, Stark County, (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 general governmental services, including water, sewer, and electric utilities, park operations (leisure time activities), cemetery operations, and police and fire services.

The Village's management believes these financial statements present all activities for which the Village is financially accountable.

The Village is associated with certain organizations which are defined as Joint Ventures and Jointly Governed Organizations under Governmental Accounting Standards Board (GASB) Statement No. 14, *Reporting Entity*. These organizations are presented in Notes 10 and 11. These organizations include:

Joint Ventures

- Local Organized Governments in Cooperation (LOGIC) RED Center Operations
- Ohio Municipal Electric Generation Agency (OMEGA)

Jointly Governed Organizations

- Stark Council of Governments (SCOG)
- Stark Regional Planning Commission
- Municipal Energy Services Agency (MESA)

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved.)

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash Investments

Investments are included in the fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost. The investment in STAR Ohio (the State Treasurer's investment pool) is valued at amounts reported by the State Treasurer.

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

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

General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

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

Fire Levy Fund - This fund receives tax levy money for the purpose of providing fire protection services to the citizens of the Village.

Capital Projects Fund

This fund is used to account for receipts that are restricted for the acquisition or construction of major capital projects (except for those financed through enterprise or trust funds). The Village had the following Capital Project Fund:

Capital Improvement Fund - The fund receives a portion of income tax revenue to provide for capital improvements in the Village.

Enterprise Funds

These funds are used to account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover the cost of providing water service.

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

Electric Fund - This fund receives charges for services from residents to cover the cost of providing electric service.

Electric Improvement Fund - This fund receives charges for services from residents for electric services. This fund has been established to provide for future capital projects relating to electric services.

E. Change in Fund Classification

In previous years, the Village reported its special purpose cemetery fund as a permanent fund. An evaluation of the activity determined that the fund was actually a special revenue fund and it has been reclassified starting in 2010.

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function or object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances at year end are cancelled, and reappropriated in the current year.

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

G. Fund Balance

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

1. Nonspendable

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

2. Restricted

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

3. Committed

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

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

H. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements (capital outlays) when paid. These items are not reflected as assets in the financial statements.

I. Accumulated Leave

In certain circumstances, such as leaving employment, employees are entitled to cash payments for unused vacation and sick leave. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Village.

NOTE 2: EQUITY IN POOLED CASH AND INVESTMENTS

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

	December 31,	
	2010	2011
Demand Deposits	\$ 749,381	\$ 552,935
Certification of Deposits	<u>867,412</u>	<u>1,115,651</u>
Total Deposits	1,616,793	1,668,586
Petty Cash	602	602
StarOhio	<u>7,921</u>	<u>7,926</u>
 Total Deposits and Investments	 <u>\$1,625,316</u>	 <u>\$ 1,677,114</u>

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 2: EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Deposits

At December 31, 2010, the carrying amount of the Village's deposits was \$1,616,793 and the bank balance was \$1,645,210. Of the bank balance, \$250,000 was covered by federal depository insurance. \$1,395,210 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the Village's name. Although all State statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Village to a successful claim by the FDIC.

At December 31, 2011, the carrying amount of the Village's deposits was \$1,668,586 and the bank balance was \$1,687,892. Of the bank balance, \$250,000 was covered by federal depository insurance. \$1,437,892 was collateralized with securities held by the pledging financial institution's trust department or agent but not in the Village's name. Although all State statutory requirements for the deposit of money had been followed, non compliance with federal requirements could potentially subject the Village to a successful claim by the FDIC.

Investments

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

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 3: BUDGETARY ACTIVITY

2011 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 167,829	\$ 153,276	\$ (14,553)
Special Revenue	205,668	205,561	(107)
Capital Projects	6,400	5,163	(1,237)
Enterprise	1,683,108	1,724,924	41,816
Total	<u>\$ 2,063,005</u>	<u>\$ 2,088,924</u>	<u>\$ 25,919</u>

2011 Budgeted vs. Actual Budgetary Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	<u>Variance</u>
General	\$ 181,296	\$ 157,491	\$ 23,805
Special Revenue	273,253	206,972	66,281
Capital Projects	8,720	1,685	7,035
Enterprise	3,125,816	1,670,978	1,454,838
Total	<u>\$ 3,589,085</u>	<u>\$ 2,037,126</u>	<u>\$ 1,551,959</u>

2010 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 178,968	\$ 164,264	\$ (14,704)
Special Revenue	206,136	195,403	(10,733)
Capital Projects	6,540	5,203	(1,337)
Enterprise	1,817,079	2,153,306	336,227
Total	<u>\$ 2,208,723</u>	<u>\$ 2,518,176</u>	<u>\$ 309,453</u>

2010 Budgeted vs. Actual Budgetary Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Disbursements</u>	<u>Variance</u>
General	\$ 190,253	\$ 161,453	\$ 28,800
Special Revenue	280,426	208,307	72,119
Capital Projects	12,197	8,539	3,658
Enterprise	3,079,263	1,984,583	1,094,680
Total	<u>\$ 3,562,139</u>	<u>\$ 2,362,882</u>	<u>\$ 1,199,257</u>

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31,2011 AND 2010**

NOTE 4: PROPERTY TAXES

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Village.

Tangible personal property is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

NOTE 5: LOCAL INCOME TAX

The Village levies a municipal income tax of 1 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 6: LONG-TERM DEBT

Debt outstanding was as follows:

	December 31, 2011	
	<u>Principal</u>	<u>Interest Rate</u>
Sewer System Mortgage Revenue Bonds	\$ 1,380,400	4.25%
OPWC Loans	157,079	0.00%
USDA Loans	<u>23,000</u>	4.50%
Total	<u>\$ 1,560,479</u>	

	December 31, 2010	
	<u>Principal</u>	<u>Interest Rate</u>
Sewer System Mortgage Revenue Bonds	\$ 1,398,500	4.25%
OPWC Loans	174,362	0.00%
USDA Loans	<u>34,000</u>	4.50%
Total	<u>\$ 1,606,862</u>	

During the current audit it was noted that the loan balance as listed on the prior years' report was overstated by \$2,653. The Sewer System Mortgage Revenue Bonds, accruing interest at 4.25% annually, were obtained to pay for water and wastewater plant expansion projects that were mandated by the Ohio Environmental Protection Agency. The loan is to be repaid annually over 40 years. The mortgage revenue bonds are collateralized by the water receipts. The Village has agreed to set water rates sufficient to cover the debt service requirements.

Ohio Public Works Commission (OPWC) loan nos. CT063, CS03A, and CS11D relate to a pumping station and water system improvement project that was mandated by the Ohio Environmental Protection Agency. The loans will be repaid in semi-annual installments of \$8,641 over 20 years. The loans are collateralized by water and sewer receipts. The Village has agreed to set water sewer rates sufficient to cover OPWC debt service requirements.

The U.S.D.A. Rural Development Fire Department Improvement Bonds, accruing interest at 4.50% annually, were obtained to pay costs of improving the Village Fire Department by acquiring an ambulance and all necessary equipment. The loan will be repaid in annual installments over 10 years. The Village has agreed to levy property taxes sufficient to cover U.S.D.A. Rural Development debt service requirements.

The Village is also a member of the OMEGA JV5 Joint Venture (Refer to Note 10) beginning in 2009, the Village began showing their portion of the debt related to this project as principal and interest. This debt payment is calculated based on each member of the joint ventures share of the total electric used. The Village's share of the debt which was paid during 2010 was \$34,075 which consisted of \$15,916 of principal and \$18,159 of interest. The Village's share of the debt which was paid during 2011 was \$32,370 which consisted of \$15,758 of principal and \$16,612 of interest.

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 6: LONG-TERM DEBT (Continued)

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

Year Ending December 31,	Sewer System		OPWC Loans		USDA Loans		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 18,700	\$ 58,667	\$ 17,282	\$ -	\$ 11,000	\$ 1,038	\$ 46,982	\$ 59,705
2013	19,700	57,872	17,283	-	12,000	540	48,983	58,412
2014	20,500	57,035	17,283	-	-	-	37,783	57,035
2015	21,400	56,164	17,282	-	-	-	38,682	56,164
2016	22,100	55,254	17,281	-	-	-	39,381	55,254
2017-2021	126,100	261,295	66,133	-	-	-	192,233	261,295
2022-2026	155,400	232,115	4,535	-	-	-	159,935	232,115
2027-2031	191,300	196,167	-	-	-	-	191,300	196,167
2032-2036	235,400	151,933	-	-	-	-	235,400	151,933
2037-2041	290,100	97,449	-	-	-	-	290,100	97,449
2042-2045	279,700	30,340	-	-	-	-	279,700	30,340
	<u>\$ 1,380,400</u>	<u>\$ 1,254,291</u>	<u>\$ 157,079</u>	<u>\$ -</u>	<u>\$ 23,000</u>	<u>\$ 1,578</u>	<u>\$ 1,560,479</u>	<u>\$ 1,255,869</u>

NOTE 7: CAPITAL LEASE

During 2005, the Village entered into a capital lease with First Bankers Corporation for the purchase of an International Water Tanker. The lease is for a period of 11 years and bears an annual interest rate of 4.625%. Payments will be made annually over 12 years. The following amounts were paid as a reduction of principal during the years ending December 31, 2011 and 2010: \$16,208 and \$15,414, respectively.

The following is a schedule of the future minimum lease payments under the capital lease at December 31, 2011:

Year Ending December 31,	Amount
2012	\$ 21,910
2013	21,910
2014	21,910
2015	21,910
2016	<u>21,910</u>
Total Minimum Lease Payments	109,550
Less amount Representing Interest	<u>(15,090)</u>
Net Present Value of Future Minimum Lease Payments	<u>\$ 94,460</u>

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 8: RETIREMENT SYSTEMS

The Village's law enforcement officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other full-time employees belong to the Ohio Public Employees' Retirement System (OPERS). OP&F and OPERS are cost-sharing, multi-employer plans. These plans provide retirement benefits, including post retirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2011 and 2010, OP&F participants contributed 10% of their wages. The Village contributed an amount equal to 19.5% of police participant wages. For 2011 and 2010, OPERS members contributed 10% of their wages. In 2011 and 2010, the Village contributed an amount equal to 14%, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2011.

NOTE 9: RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability
- Vehicles
- Commercial Inland Marine
- Public officials' liability

Settled claims have not exceeded commercial coverage in the past two years. Also, there have been no significant reduction in coverages from last year.

The Village also provides medical, dental, and life insurance coverage to full-time employees through Hometown Insurance Co.

NOTE 10: JOINT VENTURES

LOGIC

The Village is a member of the Local Organized Governments in Cooperation (LOGIC) RED Center Operations, a statutorily created political subdivision of the State formed in 1986 to provide safety dispatching services. - LOGIC is a joint venture among the Village, City of Massillon, Jackson Township, and the City of Canal Fulton, with each participant providing one representative. Each representative has a membership share based on the percentage of contractual financial contributions to the total funding, and each participant is entitled to vote its percentage share. The Board has total authority over the operation of LOGIC, including budgeting, appropriating, contracting, and designating management. Continued existence of LOGIC is not dependent on the Village's continued participation. LOGIC does not provide specific financial benefits or impose specific financial burdens on the Village. During 2011 and 2010, the Village made contributions of \$21,026 and \$20,954, respectively, but does not have an equity interest in LOGIC. Financial statements of LOGIC may be obtained from Local Organized Governments in Cooperation, Canton, Ohio.

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 10: JOINT VENTURES (Continued)

OMEGA JV5

The Village of Beach City is a Financing Participant with an ownership percentage of .30 %, 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.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2011 Beach City has met their debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The Village's net investment to date in OMEGA JV5 was \$31,863 at December 31, 2011. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.auditor.state.oh.us.

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 10: JOINT VENTURES (Continued)

Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

Participant	Ownership and Entitlement	KW Demand	Participant	Ownership and Entitlement	KW Demand
Cuyahoga Falls	16.67%	7,000	Arcanum	0.84%	352
Bowling Green	15.73%	6,608	Seville	0.82%	344
Niles	10.63%	4,463	Brewster	0.79%	333
Napoleon	7.35%	3,088	Pioneer	0.76%	321
Jackson	7.14%	3,000	Genoa	0.69%	288
Hudson	5.69%	2,388	Jackson Center	0.67%	281
Wadsworth	5.62%	2,360	Grafton	0.64%	269
Oberlin	3.02%	1,270	Elmore	0.58%	244
New Bremen	2.38%	1,000	Woodville	0.50%	209
Bryan	2.19%	919	Milan	0.39%	163
Hubbard	2.07%	871	Bradner	0.35%	145
Montpolier	2.02%	850	Beach City	0.30%	128
Minster	1.99%	837	Prospect	0.27%	115
Columbiana	1.66%	696	Haskins	0.13%	56
Wellington	1.62%	679	Lucas	0.13%	54
Versailles	1.10%	460	Arcadia	0.11%	46
Monroeville	1.02%	427	South Vienna	0.11%	45
Oak Harbor	0.94%	396	Waynesfield	0.08%	35
Lodi	0.94%	395	Eldorado	0.08%	35
Pemberville	0.92%	386	Republic	0.08%	35
Edgerton	0.92%	385	Custer	0.06%	24
	<u>91.62%</u>	<u>38,478</u>		<u>8.38%</u>	<u>3,522</u>
				<u>100.00%</u>	<u>42,000</u>

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 11: JOINTLY GOVERNED ORGANIZATIONS

The Village participates in the Stark Council of Governments (the "Council"), which is a statutorily created political subdivision of the State. The Council is jointly governed among Stark County, municipalities and townships with thirty-eight participants providing thirty-eight representatives. The Village appoints a representative and has a membership share based on the percentage of contractual financial contributions to the total funding. Each participant is entitled to vote its percentage share. The board exercises total authority over the operation of the Council including budgeting, appropriating, contracting, and designating management. Continued existence of the Council is not dependent on the Village's continued participation. The Council does not provide specific financial benefits or impose specific financial burdens in the Village. The Village did not make any contributions during the fiscal year and does not have an equity interest in the Council. Financial statements of the Council can be obtained from Stark Council of Governments, Canton, Ohio.

The Village participates in the Stark County Regional Planning Commission (Commission) which is a statutorily created political subdivision of the State. The Commission is jointly governed among Stark County, and other villages, cities, and townships. The principal aim of the Commission is to provide comprehensive planning, both long- and short term range, dealing with the economic and physical environment of Stark County. The board exercises total authority for the day-to-day operations of the Commission. These include budgeting, appropriating, contracting, and designating management. The Village has no financial responsibility for any of the Commission's liabilities. Complete financial statements can be obtained from the Stark County Regional Planning Commission, Stark County, Ohio.

The Municipal Energy Services Agency (MESA) is a jointly governed organization among the Village and approximately 30 other municipal electric systems. MESA was formed to provide access to a pool of personnel experienced in the planning, management, engineering, construction, safety training and other technical aspects of the operation and maintenance of municipal electric and other utility systems. The continued existence of MESA is not dependent on the Village's continued participation and the Village does not have an equity interest in or financial responsibility for MESA. MESA has no outstanding debt.

NOTE 12: CONTINGENCIES

The Village received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the Village at December 31, 2011 and 2010.

NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Village's enterprise fund account for the provision of water, waste water, electric, and utility deposits. The table below reflects, in a summarized format, the more significant financial data relating to the Enterprise funds of the Village of Beach City as of and for the years ending December 31, 2011 and 2010:

VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010

NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS (CONTINUED)

	For the year ended December 31, 2011							
	Water	Sewer	Electric	Utility Deposit	Cemetery	Sewer Reserve	Electric Improvement	Total
OPERATING CASH RECEIPTS:								
Charges for Services	\$ 244,474	\$ 276,028	\$ 1,086,468	\$ -	\$ 6,281	\$ -	\$ 48,462	\$ 1,661,713
Miscellaneous	-	-	-	-	640	-	-	640
Total operating cash receipts	244,474	276,028	1,086,468	-	6,921	-	48,462	1,662,353
OPERATING CASH DISBURSEMENTS:								
Personal services	108,226	84,837	185,094	-	6,517	-	-	384,674
Travel transportation	239	206	1,610	-	-	-	-	2,055
Contractual services	44,085	97,789	849,335	-	3,685	-	-	994,894
Supplies and materials	70,940	25,808	22,882	-	1,512	-	-	121,142
Total cash disbursements	223,490	208,640	1,058,921	-	11,714	-	-	1,502,765
Operating income (loss)	20,984	67,388	27,547	-	(4,793)	-	48,462	159,588
NON-OPERATING RECEIPTS (DISBURSEMENTS)								
Earnings on investments	-	-	-	-	328	1,051	-	1,379
Sales of fixed assets	-	-	4,840	-	-	-	-	4,840
Redemption of principal	(11,975)	(23,408)	(15,758)	-	-	-	-	(51,141)
Interest and other fiscal charges	-	(57,639)	(16,612)	-	-	-	-	(74,251)
Capital outlay	(9,544)	(1,852)	(22,676)	-	-	-	-	(34,072)
Other financing sources	4,078	1,605	43,844	6,825	-	-	-	56,352
Other financing uses	(890)	(854)	(1,184)	(5,748)	(73)	-	-	(8,749)
Total non-operating receipts (disbursements)	(18,331)	(82,148)	(7,546)	1,077	255	1,051	-	(105,642)
Net income (loss)	2,653	(14,760)	20,001	1,077	(4,538)	1,051	48,462	53,946
FUND CASH BALANCES, January 1, 2011	165,150	77,436	1,032,232	27,853	20,495	100,802	120,043	1,544,011
FUND CASH BALANCES, December 31, 2011	\$ 167,803	\$ 62,676	\$ 1,052,233	\$ 28,930	\$ 15,957	\$ 101,853	\$ 168,505	\$ 1,597,957

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 13: SEGMENT INFORMATION FOR ENTERPRISE FUNDS (CONTINUED)

	For the year ended December 31, 2010							Total
	Water	Sewer	Electric	Utility Deposit	Cemetery	Sewer Reserve	Electric Improvement	
OPERATING CASH RECEIPTS:								
Charges for Services	\$ 250,852	\$ 276,217	\$ 1,484,279	\$ -	\$ 8,410	\$ -	\$ 71,562	\$ 2,091,320
Miscellaneous	-	-	-	2,850	-	-	-	2,850
Total operating cash receipts	<u>250,852</u>	<u>276,217</u>	<u>1,484,279</u>	<u>-</u>	<u>11,260</u>	<u>-</u>	<u>71,562</u>	<u>2,094,170</u>
OPERATING CASH DISBURSEMENTS:								
Personal services	87,622	57,962	241,743	-	8,225	-	-	395,552
Travel transportation	1,200	81	2,482	-	-	-	-	3,763
Contractual services	31,318	88,518	1,142,006	-	8,164	-	-	1,270,006
Supplies and materials	100,462	20,365	45,217	-	1,880	-	-	167,924
Total cash disbursements	<u>220,602</u>	<u>166,926</u>	<u>1,431,448</u>	<u>-</u>	<u>18,269</u>	<u>-</u>	<u>-</u>	<u>1,837,245</u>
Operating income (loss)	30,250	109,291	52,831	-	(7,009)	-	71,562	256,925
NON-OPERATING RECEIPTS (DISBURSEMENTS)								
Earnings on investments	-	-	-	-	337	1,697	-	2,034
Sales of fixed assets	-	-	12,659	-	-	-	-	12,659
Redemption of principal	(11,975)	(22,707)	(15,916)	-	-	-	-	(50,598)
Interest and other fiscal charges	-	(58,189)	(19,420)	-	-	-	-	(77,609)
Capital outlay	-	(8,299)	(1,341)	-	-	-	-	(9,640)
Other financing sources	4,735	1,154	30,734	7,800	20	-	-	44,443
Other financing uses	(665)	(1,122)	(1,646)	(5,946)	(112)	-	-	(9,491)
Total non-operating receipts (disbursements)	<u>(7,905)</u>	<u>(89,163)</u>	<u>5,070</u>	<u>1,854</u>	<u>245</u>	<u>1,697</u>	<u>-</u>	<u>(88,202)</u>
Net income (loss)	22,345	20,128	57,901	1,854	(6,764)	1,697	71,562	168,723
FUND CASH BALANCES, January 1, 2010	<u>142,805</u>	<u>57,308</u>	<u>974,331</u>	<u>25,999</u>	<u>27,259</u>	<u>99,105</u>	<u>48,481</u>	<u>1,375,288</u>
FUND CASH BALANCES, December 31, 2010	<u>\$ 165,150</u>	<u>\$ 77,436</u>	<u>\$ 1,032,232</u>	<u>\$ 27,853</u>	<u>\$ 20,495</u>	<u>\$ 100,802</u>	<u>\$ 120,043</u>	<u>\$ 1,544,011</u>

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 14: AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT

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

History of the AMPGS Project

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

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

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

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

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

**VILLAGE OF BEACH CITY
STARK COUNTY
NOTES TO THE FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010**

NOTE 14: AMERICAN MUNICIPAL POWER GENERATING STATION PROJECT (Continued)

Based on an allocation to Beach City of 1,126 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the Village of Beach City has a potential stranded cost obligation of \$184,163 for the AMPGS Project. The Village of Beach City does not have any payments on deposit with AMP at December 31, 2011.

AMP Fremont Energy Center (AFEC) Development Fee

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

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the Village receives a credit of \$53,395 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 510 and the total kW share of those participating in both projects. The Village has not recorded this credit in its financial statements as of December 31, 2011.

Recording of Stranded Costs

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

Had the Village chosen to expense the potential stranded costs the Village believes it would have violated its covenant obligations for its debt covenant obligation with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5.

The Village intends to pay any potential future costs by a combination of cash reserves and adjusting rates.

Rockefeller Building
614 W Superior Ave Ste 1242
Cleveland OH 44113-1306
Office phone - (216) 575-1630
Fax - (216) 436-2411

Charles E. Harris & Associates, Inc.
Certified Public Accountants

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

Village of Beach City
Stark County
105 East Main Street
Beach City, OH 44608

To the Village Council:

We have audited the financial statements of the Village of Beach City (the Village), Stark County, Ohio, as of and for the year ended December 31, 2011 and 2010, and have issued our report thereon dated May 14, 2012 wherein we noted the Village followed accounting practices the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America. For the year ended December 31, 2011, we noted the Village implemented Governmental Accounting Standard Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village of Beach City, Stark County, Ohio's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village, internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of internal control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented or detected and corrected on a timely basis.

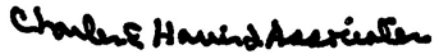
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

However, we noted certain matters that we have reported to management of the Village in a separate letter dated May 14, 2012.

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

A handwritten signature in black ink that reads "Charles E. Harris" in a cursive style.

Charles E. Harris and Associates, Inc.
May 14, 2012

**VILLAGE OF BEACH CITY
STARK COUNTY, OHIO**

**SCHEDULE OF PRIOR AUDIT FINDINGS
December 31, 2011 and 2010**

The prior audit report, as of December 31, 2009 and 2008, reported no material citations or recommendations.



Dave Yost • Auditor of State

VILLAGE OF BEACH CITY

STARK 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
OCTOBER 23, 2012