

Village of Arcanum  
Darke County, Ohio

Regular Audit

January 1, 2006, through December 31, 2007  
Fiscal Years Audited Under GAGAS: 2007 and 2006



**Balestra, Harr & Scherer, CPAs, Inc.**

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# Mary Taylor, CPA

Auditor of State

Members of Council  
Village of Arcanum  
104 West South Street  
Arcanum, Ohio 45304

We have reviewed the *Independent Auditor's Report* of the Village of Arcanum, Darke County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2006 through December 31, 2007. 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 *Independent Auditor's Report* 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 *Independent Auditor's Report* 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 Arcanum is responsible for compliance with these laws and regulations.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

September 30, 2008

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DARKE COUNTY  
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Ohio Society of Certified Public Accountants

## Independent Auditor's Report

Village Council  
Village of Arcanum  
104 West South St.  
Arcanum, Ohio 45304

We have audited the accompanying financial statements of the Village of Arcanum, Darke County, (the Village) as of and for the years ended December 31, 2007 and 2006. 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.

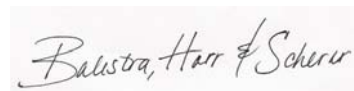
Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting its larger (i.e., major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards require us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments 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, 2007 and 2006 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, 2007 and 2006, or its changes in financial position or cash flows, where applicable, for the years then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of Arcanum, Darke County, as of December 31, 2007 and 2006, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2008, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on this internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.



Balestra, Harr & Scherer, CPAs, Inc.

July 2, 2008



**Village of Arcanum  
Darke County**

*Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances  
All Governmental Funds  
For the Year Ended December 31, 2007*

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property and Local Taxes	\$ 82,192	\$ 19,205	\$ 31,869	\$ -	\$ 133,266
Municipal Income Tax	307,531	-	-	-	307,531
Intergovernmental	144,080	124,194	-	-	268,274
Charges for Services	1,355	72,497	-	-	73,852
Fines, Licenses & Permits	745	-	-	-	745
Earnings on Investments	94,198	39,916	-	2,458	136,572
Miscellaneous	14,957	4,660	-	-	19,617
<b>Total Cash Receipts</b>	<b>645,058</b>	<b>260,472</b>	<b>31,869</b>	<b>2,458</b>	<b>939,857</b>
<b>Cash Disbursements:</b>					
Current:					
Security of Persons & Property	253,071	57,301	729	-	311,101
Public Health Service	10,963	-	-	-	10,963
Leisure Time Activities	8,747	30,344	-	-	39,091
Community Environment	82,284	-	-	-	82,284
Transportation	-	78,502	-	-	78,502
General Government	137,012	437	-	-	137,449
Capital Outlay	9,600	27,963	-	128	37,691
Debt Service:					
Principal Payments	11,321	-	30,236	-	41,557
Interest and Fiscal Charges	-	-	2,350	-	2,350
<b>Total Cash Disbursements</b>	<b>512,998</b>	<b>194,547</b>	<b>33,315</b>	<b>128</b>	<b>740,988</b>
<b>Total Cash Receipts Over Cash Disbursements</b>	<b>132,060</b>	<b>65,925</b>	<b>(1,446)</b>	<b>2,330</b>	<b>198,869</b>
<b>Other Financing Receipts and (Disbursements):</b>					
Transfers-In	70,286	70,000	-	-	140,286
Transfers - Out	(154,100)	-	-	-	(154,100)
<b>Total Other Financing Receipts/(Disbursements)</b>	<b>(83,814)</b>	<b>70,000</b>	<b>-</b>	<b>-</b>	<b>(13,814)</b>
<b>Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements</b>	<b>48,246</b>	<b>135,925</b>	<b>(1,446)</b>	<b>2,330</b>	<b>185,055</b>
<b>Fund Cash Balances, January 1</b>	<b>817,965</b>	<b>695,529</b>	<b>34,640</b>	<b>136,004</b>	<b>1,684,138</b>
<b>Fund Cash Balances, December 31</b>	<b>\$ 866,211</b>	<b>\$ 831,454</b>	<b>\$ 33,194</b>	<b>\$ 138,334</b>	<b>\$ 1,869,193</b>

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

**Village of Arcanum  
Darke County**

*Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances  
Proprietary and Similar Fiduciary Fund Types  
For the Year Ended December 31, 2007*

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$ 2,710,570	\$ -	\$ 2,710,570
Other Operating Receipts	97,663	-	97,663
<b>Total Operating Cash Receipts</b>	<b>2,808,233</b>	<b>-</b>	<b>2,808,233</b>
<b>Operating Cash Disbursements:</b>			
Personal Services	569,031	-	569,031
Travel Transportation	16,668	-	16,668
Contractual Services	1,305,999	-	1,305,999
Supplies and Materials	162,023	-	162,023
Capital Outlay	186,327	-	186,327
<b>Total Operating Cash Disbursements</b>	<b>2,240,048</b>	<b>-</b>	<b>2,240,048</b>
Operating Income	568,185	-	568,185
<b>Non-Operating Receipts (Disbursements):</b>			
Other Nonoperating Disbursements	(48,117)	-	(48,117)
Principal Payments	(131,203)	-	(131,203)
Interest and Fiscal Charges	(45,213)	-	(45,213)
<b>Total Non-Operating Receipts/(Disbursements)</b>	<b>(224,533)</b>	<b>-</b>	<b>(224,533)</b>
<b>Income/(Loss) Before Interfund Transfers</b>	<b>343,652</b>	<b>-</b>	<b>343,652</b>
<b>Transfers:</b>			
Transfers - In	84,100	-	84,100
Transfers - Out	(70,286)	-	(70,286)
<b>Total Transfers</b>	<b>13,814</b>	<b>-</b>	<b>13,814</b>
Net Receipts Over Disbursements	357,466	-	357,466
Fund Cash Balances, January 1	1,632,441	1,381	1,633,822
<b>Fund Cash Balances, December 31</b>	<b>\$ 1,989,907</b>	<b>\$ 1,381</b>	<b>\$ 1,991,288</b>

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

**Village of Arcanum  
Darke County**

*Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances  
All Governmental Funds  
For the Year Ended December 31, 2006*

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Services</u>	<u>Capital Projects</u>	
<b>Cash Receipts:</b>					
Property and Local Taxes	\$ 82,252	\$ 19,008	31,291	\$ -	\$ 132,551
Municipal Income Tax	258,291	-	-	-	258,291
Intergovernmental	160,815	117,869	-	36,170	314,854
Charges for Services	1,280	72,225	-	-	73,505
Fines, Licenses & Permits	380	-	-	-	380
Earnings on Investments	64,714	27,208	-	906	92,828
Miscellaneous	20,573	5,457	-	2,067	28,097
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Receipts	588,305	241,767	31,291	39,143	900,506
<b>Cash Disbursements:</b>					
Current:					
Security of Persons & Property	292,129	65,626	728	-	358,483
Public Health Service	10,022	-	-	-	10,022
Leisure Time Activities	14,105	48,090	-	-	62,195
Community Environment	115,043	-	-	-	115,043
Transportation	-	84,238	-	-	84,238
General Government	138,896	397	-	-	139,293
Capital Outlay	189,780	15,753	-	66,130	271,663
Debt Service:					
Principal Payments	11,321	-	29,126	-	40,447
Interest and Fiscal Charges	-	-	3,459	-	3,459
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Cash Disbursements	771,296	214,104	33,313	66,130	1,084,843
Total Cash Receipts Over Cash Disbursements	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(182,991)	27,663	(2,022)	(26,987)	(184,337)
<b>Other Financing Receipts and (Disbursements):</b>					
Transfers - In	71,705	75,000	-	-	146,705
Transfers - Out	(150,000)	-	-	-	(150,000)
Advances - In	202,760	-	-	2,760	205,520
Advances - Out	(202,760)	-	-	(2,760)	(205,520)
Proceeds from sale of Notes	169,820	-	-	-	169,820
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Other Financing Receipts/(Disbursements)	91,525	75,000	-	-	166,525
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(91,466)	102,663	(2,022)	(26,987)	(17,812)
Fund Cash Balances, January 1 (Restated See Note 10)	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	909,431	592,866	36,662	162,991	1,701,950
Fund Cash Balances, December 31	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 817,965	\$ 695,529	\$ 34,640	\$ 136,004	\$ 1,684,138

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

**Village of Arcanum  
Darke County**

*Combined Statement of Cash Receipts, Cash Disbursements, and  
Changes in Fund Cash Balances  
Proprietary and Similar Fiduciary Fund Types  
For the Year Ended December 31, 2006*

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
<b>Operating Cash Receipts:</b>			
Charges for Services	\$ 2,613,783	\$ -	\$ 2,613,783
Other Operating Receipts	180,315	-	180,315
Total Operating Cash Receipts	2,794,098	-	2,794,098
<b>Operating Cash Disbursements:</b>			
Personal Services	635,371	-	635,371
Travel Transportation	24,012	-	24,012
Contractual Services	1,317,677	-	1,317,677
Supplies and Materials	142,484	-	142,484
Capital Outlay	269,150	-	269,150
Total Operating Cash Disbursements	2,388,694	-	2,388,694
Operating Income	405,404	-	405,404
<b>Non-Operating Receipts (Disbursements):</b>			
Proceeds of Notes	200,408	-	200,408
Other Non-Operating Receipts	96,461	-	96,461
Other Nonoperating Disbursements	(53,029)	-	(53,029)
Principal Payments	(138,372)	-	(138,372)
Interest and Fiscal Charges	(89,788)	-	(89,788)
Total Non-Operating Receipts/(Disbursements)	15,680	-	15,680
<b>Income/(Loss) Before Interfund Transfers and Advances</b>	421,084	-	421,084
<b>Transfers and Advances:</b>			
Transfers - In	75,000	-	75,000
Transfers - Out	(71,705)	-	(71,705)
Advances - In	200,000	-	200,000
Advances - Out	(200,000)	-	(200,000)
Total Transfers and Advances	3,295	-	3,295
Net Receipts Over Disbursements	424,379	-	424,379
Fund Cash Balances, January 1	1,208,062	1,381	1,209,443
<b>Fund Cash Balances, December 31</b>	<u>\$ 1,632,441</u>	<u>\$ 1,381</u>	<u>\$ 1,633,822</u>

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

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Entity**

The Village of Arcanum, Darke County, (the Village) is a body corporate and politic 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 and sewer utilities, refuse services, park operations (leisure time activities), police and fire services.

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

**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 and Investments**

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

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investment are not recorded as receipts. Gains and losses at the time of sale are recorded as receipts or disbursements, respectively.

Certificates of deposit are valued at cost.

**D. Fund Accounting**

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

**1. General Fund:**

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

**2. Special Revenue Funds:**

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

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. 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.

*State Highway Fund* – This fund receives state money for constructing, maintaining and repairing Village streets in conjunction with the state highways in the Village.

*Fire Fund* – This fund receives the proceeds of contractual services for providing fire protection to Twin and Van Buren Townships and the Village of Ithaca.

3. Debt Service Funds:

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Village had the following significant debt service funds:

*Water Tower Fund* – This fund is used to accumulate resources for the payment of a loan from the Ohio Public Works Commission.

*Fire Equipment Levy Fund* - This fund is used to accumulate resources for the payment of debt for purchase of fire equipment.

4. Capital Project Funds

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

*Separation Phase II* – This fund is used to record the receipts and expenditures of funds for the sanitary sewer system of the Village.

5. Proprietary Funds:

**Enterprise Fund**

These funds 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 services to residents.

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

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

*Garbage and Refuse Fund* – This fund receives fees charged for providing refuse service.

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

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

**D. Fund Accounting (Continued)**

**6. Fiduciary Funds**

**Agency Funds**

These funds are purely custodial in nature and are used to hold resources for individuals, organization or other governments. The Village accounts for the following agency fund:

Unclaimed Monies Funds – This agency fund receives amounts from stale outstanding checks.

**E. Budgetary Process**

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

**1. Appropriations**

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the 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 outstanding at year end are carried over, and need not be reappropriated. There were no outstanding encumbrances at December 31, 2007 or 2006.

A summary of 2007 and 2006 budgetary activity appears in Note 3.

**F. 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.

**G. Unpaid Vacation and Sick Leave**

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

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**2. EQUITY IN POOLED CASH**

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

	<b>2007</b>	<b>2006</b>
Demand Deposits	\$ 1,584,316	\$ 1,472,542
Certificates of Deposit	1,650,000	1,250,000
Total Deposits	3,234,316	2,722,542
Star Ohio	626,165	595,418
Total Deposits and Investments	\$ 3,860,481	\$ 3,317,960

**Deposits:** Deposits are either (1) insured by the Federal Depository Insurance Corporation, or (2) collateralized by the financial institution's public entity deposit pool.

**3. BUDGETARY ACTIVITY**

Budgetary activity for the years ending December 31, 2007 and December 31, 2006, was as follows:

**2007 Budgeted vs. Actual Receipts**

<b>Fund Type</b>	<b>Budgeted Receipts</b>	<b>Actual Receipts</b>	<b>Variance</b>
General	\$ 599,650	\$ 715,344	\$ 115,694
Special Revenue	303,640	330,472	26,832
Debt Service	30,330	31,869	1,539
Capital Projects	900	2,458	1,558
Enterprise	2,602,500	2,892,333	289,833
Total	\$ 3,537,020	\$ 3,972,476	\$ 435,456

**2007 Budgeted vs. Actual Budgetary Basis Expenditures**

<b>Fund Type</b>	<b>Appropriation Authority</b>	<b>Budgetary Expenditures</b>	<b>Variance</b>
General	\$ 872,001	667,098	\$ 204,903
Special Revenue	325,523	194,547	130,976
Debt Service	33,674	33,315	359
Capital Projects	105,339	128	105,211
Enterprise	3,303,982	2,534,867	769,115
Total	\$ 4,640,519	\$ 3,429,955	\$ 1,210,564



VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

3. BUDGETARY ACTIVITY (CONTINUED)

2006 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 542,100	\$ 829,830	\$ 287,730
Special Revenue	287,035	316,767	29,732
Debt Service	33,500	31,291	(2,209)
Capital Projects	39,642	39,143	(499)
Enterprise	2,808,000	3,165,967	357,967
Total	<u>\$ 3,710,277</u>	<u>\$ 4,382,998</u>	<u>\$ 672,721</u>

2006 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 1,277,533	\$ 921,296	\$ 356,237
Special Revenue	297,600	214,104	83,496
Debt Service	33,694	33,313	381
Capital Projects	97,845	66,130	31,715
Enterprise	3,558,662	2,741,588	817,074
Total	<u>\$ 5,265,334</u>	<u>\$ 3,976,431</u>	<u>\$ 1,288,903</u>

4. PROPERTY TAX

Real property taxes become a lien on January 1 proceeding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**5. DEBT**

Debt outstanding at December 31, 2007 was as follows:

	Principal	Interest Rate
Ohio Public Works Commission	\$139,974	0%
Ohio Public Works Commission – Phase II	240,000	0%
Ohio Water Development Authority	2,686,707	1.5%
Fire Equipment Acquisition	31,381	3.76%
Ohio Public Works Commission	31,250	0%
Ohio Water Development Authority – Phase II	938,279	4.84%
Ohio Water Development Authority	192,168	2%
Lease Purchase Agreement	147,178	0%
Total	\$4,406,937	

The Ohio Public Works Commission (OPWC) loan relates to water tower construction. The OPWC has approved an interest free loan of \$489,000 to the Village for this project. The loan will be repaid in annual installments of \$21,535 over 20 years, with the final payment July 1, 2014. The loan is collateralized by water and sewer receipts.

The Ohio Public Works Commission (OPWC) loan relates to the northwest sanitary sewer separation. The OPWC has approved an interest free loan of \$50,000 to the Village for this project. The loan will be repaid in annual installments of \$2,500 over 20 years with final payment July 1, 2020. The loan is collateralized by water and sewer receipts.

The Ohio Public Works Commission (OPWC) loan relates to the sanitary sewer phase II. The OPWC has approved an interest free loan in the amount of \$300,000 for this project. The loan will be repaid in annual installments of \$15,000 over 20 years with final payment July 1, 2023. The loan is collateralized by water and sewer receipts.

The Ohio Water Development Authority (OWDA) loan relates to the sanitary sewer phase II. The Village was approved for a loan in the amount of \$3,000,000. The loan is to be repaid in annual installments of \$124,550, including principal and interest at 1.5%, over 30 years with final payment July 1, 2033. The loan is collateralized by water and sewer receipts.

The Ohio Water Development Authority (OWDA) loan relates to the sanitary sewer phase II. The Village was approved for a loan in the amount of \$2,000,000. As of December 31, 2007 \$1,077,740 was drawn on the loan and the loan is to be repaid in annual installments of \$127,065, including principal and interest at 4.84%, over 30 years. It was determined that the full amount would not need to be drawn on the loan. Due to payments being made on the assumption that the full loan would be drawn, OWDA adjusted the Villages principal balance outstanding in 2007 to reduce principal amount for prior overpayment of interest in the amount of \$60,033. The loan is collateralized by water and sewer receipts. This loan has not been finalized so no amortization schedule has been prepared by the OWDA.

The Ohio Water Development Authority (OWDA) loan relates to the water plant upgrade. The Village was approved for a loan in the amount of \$200,000 for this project. The loan is to be repaid in annual installments of \$12,208, including principal and interest at 2%, over 20 years. The loan is collateralized by water and sewer receipts.

The Fire Equipment Acquisition Note relates to the purchase of a fire pumper truck. The loan is to be repaid in annual installments of \$32,585, including principal and interest at 3.76, over 5 years with final payment on December 9, 2008.

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**5. DEBT (Continued)**

The Lease Purchase Agreement relates to the purchase of a factory building that is to be used for the Village's street department. The original amount of the lease purchase agreement was \$169,820. The lease to purchase is to be paid in annual installments of \$11,321 over 15 years with the final payment March 14, 2020.

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

<u>Year Ending December 31:</u>	<u>OPWC Loans</u>	<u>OWDA Loans</u>	<u>Equipment Note</u>	<u>Lease Purchase</u>
2008	\$ 39,035	\$ 92,879	\$ 32,585	\$ 11,321
2009	39,035	95,782	-	11,321
2010	39,035	97,268	-	11,321
2011	39,035	108,777	-	11,321
2012	39,035	100,309	-	11,321
2013-2017	119,802	517,358	-	56,605
2018-2022	81,250	558,788	-	33,968
2022-2027	14,997	597,468	-	-
2028-2032	-	587,487	-	-
2033-2034	-	204,179	-	-
Total	<u>\$ 411,224</u>	<u>\$ 2,960,295</u>	<u>\$ 32,585</u>	<u>\$ 147,178</u>

**Omega JV 5- AMP- Ohio**

The Village entered into a loan agreement with Ohio Municipal Power- Ohio, Inc. (AMP-Ohio) for the purpose of providing financing for the acquisition and installation of electric system improvements.

The Electric Operating Fund is to pay the loan made by AMP-Ohio together with interest thereon equal to the rates of interest on the electric system improvement bond anticipation notes to be issued by AMP-Ohio in one or more series, or on notes issues to refund the Notes or on the Electric System Improvement Bonds to be issued by Amp-Ohio in anticipation of which Bonds Notes are issued.

On the maturity date of each series of the Notes the Village will pay to AMP-Ohio all interest due on the Notes plus any amount of principal up to the original principal amount of such series, and on the maturity date of such series of the Notes plus an amount of principal equal to the amount of principal amount which would be due in the corresponding year on a loan the original amount of such series, for a term of 20 years, at the interest rate bourn by such series of the Notes.

AMP-Ohio will use its best efforts to refinance any remaining principal of any series of the Notes; provided, however, that if AMP-Ohio is unable to refinance any series of the Notes, it shall give the Village and the original purchaser of the Notes 60 days notice of such inability, and the Village shall pay AMP-Ohio all amounts necessary to retire such series of the Notes at maturity. Also see Note 8, for more information relating to AMP-Ohio, Omega JV-5 project and related amortization schedules based upon percentage of ownership.

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**6. RETIREMENT SYSTEMS**

The Village's law enforcement officers and the fire chief belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Public Employees Retirement System (OPERS) of Ohio. OP&F and OPERS are cost-sharing, multiple-employer plan. These plans provide retirement benefits, including postretirement 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 2007 and 2006, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant and 24 percent of fire participant wages. For 2007 and 2006, OPERS members contributed 9.5 and 9 percent, respectively, of their gross salaries and the Village contributed an amount equaling 13.85 and 13.7 percent, respectively, of participants' gross salaries. The Village has paid all contributions required through December 31, 2007.

**7. RISK MANAGEMENT**

The Village has obtained commercial insurance coverage for the following risks:

- Comprehensive property and general liability
- Vehicles; and
- Errors and omissions.
- Public Officials liability
- Vehicle
- Law Enforcement
- Property

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

**8. JOINT VENTURES WITH EQUITY INTEREST**

**OMEGA JV5**

The Village of Arcanum is a Financing Participant with an ownership percentage of 0.84 percent, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV 5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed, or equipped by AMP-Ohio.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**8. JOINT VENTURES WITH EQUITY INTEREST (CONTINUED)**

**OMEGA JV5 (Continued)**

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating and 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 percent of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2007 Arcanum 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 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, and accumulated maximum kilowatts equal to 25 percent of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

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

The Village's net investment to date in OMEGA JV5 was \$75,176 at December 31, 2007. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or the State Auditors website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

8. **JOINT VENTURES WITH EQUITY INTEREST (CONTINUED)**

**OMEGA JV5 (Continued)**

Amortization of the participant's percentage share of debt as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Refunding</u>	<u>Total</u>
2008	\$ 36,750	\$ 40,269	\$ 11,553	\$ 88,572
2009	37,590	39,443	11,555	88,588
2010	38,388	38,255	11,551	88,194
2011	39,522	36,709	11,531	87,762
2012	40,824	35,046	11,534	87,404
2013-2017	238,182	141,579	57,857	437,618
2018-2022	302,652	74,227	57,667	434,546
2023-2027	215,661	209,723	23,073	448,457
2028-2030	44,445	151,947	-	196,392
Total	<u>\$ 994,014</u>	<u>\$ 767,198</u>	<u>\$ 196,321</u>	<u>\$ 1,957,533</u>

**OMEGA JV2**

The Village of Arcanum is a Non-Financing Participant and an Owner Participant with an ownership percentage of .03% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

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

OMEGA JV2 was created to provide additional sources of reliable, reasonable priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 years fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The Village's net investment in OMEGA JV2 was \$12,913 at December 31, 2007. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at [www.auditor.state.oh.us](http://www.auditor.state.oh.us).

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**8. JOINT VENTURES WITH EQUITY INTEREST (CONTINUED)**

**OMEGA JV2 (Continued)**

The thirty-six participating subdivisions and their respective ownership share at December 31, 2007 are:

Municipality	Percent Ownership	KW Entitlement	Municipality	Percent Ownership	KW Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	<u>95.2%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

**9. SEGMENT INFORMATION FOR THE ELECTRIC FUND**

Included in the services provided by the Village are electric utility services financed primarily by user charges. The calculation of Joint Ventures 5 (JV5) debt coverage and the financial breakdown of the Electric Fund are presented separately to satisfy debt covenant compliance requirements with AMP Ohio. The financial information for the year ended December 31, 2007 and 2006 for these enterprises are indicated below:

**Calculation of JV5 Debt Coverage**

	<u>2007</u>	<u>2006</u>
Operating Income	\$ 208,696	\$ 303,171
JV5 Debt Service (Included above as operating expenses to Amp Ohio)	88,531	88,579
KWH Tax from General Fund	-	-
Adjusted Operating Income Available for Debt Service	<u>297,227</u>	<u>391,750</u>
OMEGA JV5 Debt Service (paid by Amp Ohio)	88,531	88,579
Other Electric System Debt Service	-	-
Total Electric System Debt	<u>\$ 88,531</u>	<u>\$ 88,579</u>
Coverage (Convenants require 110% coverage of all debt)	336%	442%

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**9. JOINT VENTURES WITH EQUITY INTEREST (Continued)**

As of December 31, 2007	<b>Electric Fund</b>	<b>Other Enterprise Funds</b>	<b>Total Enterprise Funds</b>
<b>Operating Cash Receipts:</b>			
Charges for Services	\$ 1,797,752	\$ 912,818	\$ 2,710,570
Other Operating Receipts	91,361	6,302	97,663
 Total Operating Cash Receipts	 1,889,113	 919,120	 2,808,233
<b>Operating Cash Disbursements:</b>			
Personal Services	346,920	222,111	569,031
Travel Transportation	10,753	5,915	16,668
Contractual Services	1,123,954	182,045	1,305,999
Supplies and Materials	100,903	61,120	162,023
Capital Outlay	97,887	88,440	186,327
 Total Operating Cash Disbursements	 1,680,417	 559,631	 2,240,048
 Operating Income	 208,696	 359,489	 568,185
<b>Non-Operating Receipts (Disbursements):</b>			
Other Nonoperating Disbursements	(30,678)	(17,439)	(48,117)
Principal Payments	-	(131,203)	(131,203)
Interest and Fiscal Charges	-	(45,213)	(45,213)
 Total Non-Operating Receipts/(Disbursements)	 (30,678)	 (193,855)	 (224,533)
 <b>Income Before Interfund Transfers</b>	 178,018	 165,634	 343,652
<b>Transfers:</b>			
Transfers - In	-	84,100	84,100
Transfers - Out	(70,286)	-	(70,286)
 Total Transfers	 (70,286)	 84,100	 13,814
 Net Receipts Over Disbursements	 107,732	 249,734	 357,466
 Fund Cash Balances, January 1	 850,811	 781,630	 1,632,441
 <b>Fund Cash Balances, December 31</b>	 <b>\$ 958,543</b>	 <b>\$ 1,031,364</b>	 <b>\$ 1,989,907</b>



VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**9. JOINT VENTURES WITH EQUITY INTEREST (Continued)**

As of December 31, 2006	<u>Electric Fund</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
<b>Operating Cash Receipts:</b>			
Charges for Services	\$ 1,722,542	\$ 891,241	\$ 2,613,783
Other Operating Receipts	<u>147,269</u>	<u>33,046</u>	<u>180,315</u>
Total Operating Cash Receipts	1,869,811	924,287	2,794,098
<b>Operating Cash Disbursements:</b>			
Personal Services	308,319	327,052	635,371
Travel Transportation	17,735	6,277	24,012
Contractual Services	1,144,311	173,366	1,317,677
Supplies and Materials	71,632	70,852	142,484
Capital Outlay	<u>24,643</u>	<u>244,507</u>	<u>269,150</u>
Total Operating Cash Disbursements	<u>1,566,640</u>	<u>822,054</u>	<u>2,388,694</u>
Operating Income	303,171	102,233	405,404
<b>Non-Operating Receipts (Disbursements):</b>			
Proceeds of Notes	-	200,408	200,408
Other Financing Sources	-	96,461	96,461
Other Nonoperating Disbursements	(36,251)	(16,778)	(53,029)
Principal Payments	-	(138,372)	(138,372)
Interest and Fiscal Charges	<u>-</u>	<u>(89,788)</u>	<u>(89,788)</u>
Total Non-Operating Receipts/(Disbursements)	<u>(36,251)</u>	<u>51,931</u>	<u>15,680</u>
<b>Income Before Interfund Transfers and Advances</b>	266,920	154,164	421,084
<b>Transfers and Advances:</b>			
Transfers - In	-	75,000	75,000
Transfers - Out	(71,705)		(71,705)
Advance - In	-	200,000	200,000
Advance - Out	<u>-</u>	<u>(200,000)</u>	<u>(200,000)</u>
Total Transfers and Advances	<u>(71,705)</u>	<u>75,000</u>	<u>3,295</u>
Net Receipts Over Disbursements	195,215	229,164	424,379
Fund Cash Balances, January 1	<u>655,596</u>	<u>552,466</u>	<u>1,208,062</u>
<b>Fund Cash Balances, December 31</b>	<u>\$ 850,811</u>	<u>\$ 781,630</u>	<u>\$ 1,632,441</u>

VILLAGE OF ARCANUM  
DARKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2007 AND 2006

**10. RESTATEMENT OF FUND BALANCE**

The following fund balance restatements were necessary to properly reclassify funds into the correct fund type:

	<u>Expendable Trust</u>	<u>Special Revenue</u>	<u>Agency</u>
12/31/2005	\$ 20,113	\$ 574,134	\$ -
Fund Reclassifications	(20,113)	18,732	1,381
Restated Balance 1/1/06	<u>\$ -</u>	<u>\$ 592,866</u>	<u>\$ 1,381</u>

**11. SUBSEQUENT EVENTS**

The Village will start a Sanitary Sewer Project – Phase III during 2008. The project will be funded by a Grant/Loan through the Ohio Public Works Commission in the amount of \$1,300,000.

# BALESTRA, HARR & SCHERER CPAs, INC.

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Ohio Society of Certified Public Accountants

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

Members of Council  
Village of Arcanum  
104 West South St  
Arcanum, Ohio 45304

We have audited the financial statements of the Village of Arcanum, Darke County (the Village), as of and for the years ended December 31, 2007 and 2006, and have issued our report thereon dated July 2, 2008 wherein we noted the Village prepared its financial statements using accounting practices the Auditor of State prescribes or permits rather than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Village's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement. We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2007-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Village's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is a material weakness.

Village of Arcanum

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Page 2

**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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matter that we must report under *Government Auditing Standards*.

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

We intend this report solely for the information and use of the Village's management and the Village Council. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

July 2, 2008

**VILLAGE OF ARCANUM  
DARKE COUNTY**

**SCHEDULE OF FINDINGS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**FINDING NUMBER 2007-001**

**Material Weakness**

The Village had reclassifications and adjustments that were identified during the course of the audit. Also we noted mathematical errors on the Village's financial statements. These errors and omissions were not prevented or detected by the Village's internal controls over financial reporting.

The Village should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported in accordance with the accounting basis required for the Village to follow.

***Client Response:***

In the future, financial reporting will be monitored and all financial transactions will be recorded as accurately as possible.

**VILLAGE OF ARCANUM  
DARKE COUNTY  
DECEMBER 31, 2007 AND 2006**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2005-001	ORC Section 5705.39 Appropriations limited by estimated resources	Yes	
2005-002	ORC Section 5705.41 (B) Expenditures exceeding appropriations	Yes	



**Mary Taylor, CPA**  
Auditor of State

**VILLAGE OF ARCANUM**

**DARKE 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 14, 2008**