



Dave Yost • Auditor of State

VILLAGE OF ARCADIA
HANCOCK COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Village of Arcadia
Hancock County
104 Gibson Street, P.O. Box 235
Arcadia, Ohio 44804-0235

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements and related notes of the Village of Arcadia, Hancock County, Ohio, (the Village) as of and for the years ended December 31, 2013 and 2012.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1B and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2013 and 2012, or changes in financial position or cash flows thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash balances of the Village of Arcadia, Hancock County, Ohio, as of December 31, 2013 and 2012, and its combined cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1B.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

July 16, 2014

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

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

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$37,658	\$14,815	\$52,473
Intergovernmental	23,827	28,048	51,875
Special Assessments		241	241
Fines, Licenses and Permits	135		135
Earnings on Investments	1,099	103	1,202
Miscellaneous	3,818		3,818
<i>Total Cash Receipts</i>	<u>66,537</u>	<u>43,207</u>	<u>109,744</u>
Cash Disbursements			
Current:			
Public Health Services	2,788		2,788
Leisure Time Activities	1,740		1,740
Community Environment	5,360		5,360
Transportation		14,174	14,174
General Government	153,076	290	153,366
Capital Outlay	5,218	23,874	29,092
<i>Total Cash Disbursements</i>	<u>168,182</u>	<u>38,338</u>	<u>206,520</u>
<i>Net Change in Fund Cash Balances</i>	(101,645)	4,869	(96,776)
<i>Fund Cash Balances, January 1</i>	<u>203,813</u>	<u>233,224</u>	<u>437,037</u>
Fund Cash Balances, December 31			
Restricted		238,093	238,093
Unassigned	102,168		102,168
<i>Fund Cash Balances, December 31</i>	<u>\$102,168</u>	<u>\$238,093</u>	<u>\$340,261</u>

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

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

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

	Enterprise
Operating Cash Receipts	
Charges for Services	\$852,959
Operating Cash Disbursements	
Personal Services	91,654
Employee Fringe Benefits	17,618
Contractual Services	563,684
Supplies and Materials	63,556
Other	3,750
<i>Total Operating Cash Disbursements</i>	740,262
<i>Operating Income</i>	112,697
Non-Operating Receipts (Disbursements)	
Special Assessments	63,612
Other Debt Proceeds	30,000
Capital Outlay	(94,252)
Principal Retirement	(113,419)
Interest and Other Fiscal Charges	(66,460)
<i>Total Non-Operating Receipts (Disbursements)</i>	(180,519)
<i>Net Change in Fund Cash Balances</i>	(67,822)
<i>Fund Cash Balances, January 1</i>	908,196
<i>Fund Cash Balances, December 31</i>	\$840,374

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

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2012**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property and Other Local Taxes	\$38,786	\$16,655	\$55,441
Intergovernmental	31,466	84,196	115,662
Special Assessments		3,480	3,480
Fines, Licenses and Permits	465		465
Earnings on Investments	1,866	164	2,030
Miscellaneous	3,899		3,899
<i>Total Cash Receipts</i>	<u>76,482</u>	<u>104,495</u>	<u>180,977</u>
Cash Disbursements			
Current:			
Public Health Services	2,969		2,969
Leisure Time Activities	1,864		1,864
Community Environment	1,912		1,912
Transportation		36,722	36,722
General Government	78,206	375	78,581
Capital Outlay	790	89,728	90,518
<i>Total Cash Disbursements</i>	<u>85,741</u>	<u>126,825</u>	<u>212,566</u>
<i>Excess of Disbursements Over Receipts</i>	<u>(9,259)</u>	<u>(22,330)</u>	<u>(31,589)</u>
Other Financing Receipts (Disbursements)			
Transfers In		8,900	8,900
Transfers Out	(8,900)		(8,900)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(8,900)</u>	<u>8,900</u>	
<i>Net Change in Fund Cash Balances</i>	(18,159)	(13,430)	(31,589)
<i>Fund Cash Balances, January 1</i>	<u>221,972</u>	<u>246,654</u>	<u>468,626</u>
Fund Cash Balances, December 31			
Restricted		233,224	233,224
Unassigned	203,813		203,813
<i>Fund Cash Balances, December 31</i>	<u>\$203,813</u>	<u>\$233,224</u>	<u>\$437,037</u>

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

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND BALANCES (CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Enterprise
Operating Cash Receipts	
Charges for Services	\$882,281
Operating Cash Disbursements	
Personal Services	86,266
Employee Fringe Benefits	14,799
Contractual Services	504,813
Supplies and Materials	51,966
Other	2,600
<i>Total Operating Cash Disbursements</i>	660,444
<i>Operating Income</i>	221,837
Non-Operating Receipts (Disbursements)	
Special Assessments	49,026
Capital Outlay	(36,851)
Principal Retirement	(105,826)
Interest and Other Fiscal Charges	(74,513)
<i>Total Non-Operating Receipts (Disbursements)</i>	(168,164)
<i>Net Change in Fund Cash Balances</i>	53,673
<i>Fund Cash Balances, January 1</i>	854,523
<i>Fund Cash Balances, December 31</i>	\$908,196

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

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

1. Summary of Significant Accounting Policies

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Arcadia, Hancock County, (the Village) as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides general government services, including electric, water, and sewer utilities and park operations. The Village contracts with Washington Township to receive fire protection services.

The Village participates in one jointly governed organization and the Public Entities Pool of Ohio, a public entity risk pool. Notes 9 through 11 and 13 to the financial statements provide additional information for these entities. These organizations are:

Jointly Governed Organization:

AMP-Ohio provides electric utilities to the Village.

Public Entity Risk Pool:

The Public Entities Pool of Ohio is available to public entities in Ohio and provides property and casualty coverage for its members.

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

B. Accounting Basis

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. The Village recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the Auditor of State prescribes or permits.

C. Deposits and Investments

The Village's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Village values certificates of deposits at cost.

D. Fund Accounting

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

1. General Fund

The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

2. Special Revenue Funds

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

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

Storm Sewer Drainage Fund – This fund receives tax proceeds to repair and maintain storm drainage within the Village.

3. Enterprise Funds

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

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

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

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, object level of control, and appropriations may not exceed estimated resources. The Village Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2013 and 2012 budgetary activity appears in Note 3.

VILLAGE OF ARCADIA
HANCOCK COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)

1. Summary of Significant Accounting Policies (Continued)

F. Fund Balance

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

1. **Nonspendable**

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

2. **Restricted**

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

3. **Committed**

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

4. **Assigned**

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

5. **Unassigned**

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

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

G. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

1. Summary of Significant Accounting Policies (Continued)

H. Accumulated Leave

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

2. Equity in Pooled Deposits

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

	2013	2012
Demand deposits	\$887,903	\$1,052,501
Other time deposits (savings and NOW accounts)	292,732	292,732
Total deposits	\$1,180,635	\$1,345,233

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

3. Budgetary Activity

Budgetary activity for the years ending December 31, 2013 and 2012 follows:

2013 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$60,854	\$66,537	\$5,683
Special Revenue	44,551	43,207	(1,344)
Enterprise	851,050	946,571	95,521
Total	\$956,455	\$1,056,315	\$99,860

2013 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$241,195	\$168,186	\$73,009
Special Revenue	227,820	38,338	189,482
Enterprise	1,577,140	1,014,393	562,747
Total	\$2,046,155	\$1,220,917	\$825,238

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

3. Budgetary Activity (Continued)

2012 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$66,530	\$76,482	\$9,952
Special Revenue	54,151	113,395	59,244
Enterprise	861,000	931,307	70,307
Total	\$981,681	\$1,121,184	\$139,503

2012 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$236,295	\$94,641	\$141,654
Special Revenue	268,035	126,825	141,210
Enterprise	1,587,090	877,635	709,455
Total	\$2,091,420	\$1,099,101	\$992,319

Contrary to Ohio law, the Village posted revenues to the wrong fund and improperly certified certain expenditures.

4. Property Tax

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

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

5. Debt

Debt outstanding at December 31, 2013 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan #2604	\$23,250	2.00%
Ohio Water Development Authority Loan #1456	8,104	7.36%
Ohio Water Development Authority Loan #3213	327,132	6.13%
Water System Mortgage Revenue Bonds	825,100	4.50%
Water Construction Fund Note	60,000	5.00%
Truck Loan	28,787	2.50%
Total	\$1,272,373	

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

5. Debt (Continued)

The Ohio Water Development Authority (OWDA) loans #2604 and 1456 relate to a sewer system construction project that was mandated by the Ohio Environmental Protection Agency. The loans will be repaid in semiannual installments over 25 years. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The OWDA loan #3213 relates to a waterline to the Red Hawk Run subdivision. The loans will be repaid in semiannual installments over 20 years. The loan is collateralized by water receipts. The Village has agreed to set utility rates and special assessments sufficient to cover OWDA debt service requirements.

The Sewer Debt Service Fund loaned the Water Construction Fund \$60,000 in 2000 to pay part of the cost of the waterline and water tank project. A note was signed promising payment of 5% interest. No payments have been made on this loan and the accrued interest at the end of 2013 is \$41,573. The note did not specify the source of the money to be used to repay the Sewer Debt Service Fund.

The Water System Mortgage Revenue bonds were entered into for the purpose of financing the water project in bringing water to the Village from the City of Fostoria in 2001. The debt has 4.5% interest rate and is scheduled to be paid in full in 2041. The Village was required by Rural Development to set aside a certificate of deposit in the amount of \$53,000.

The Village entered into a bank loan for the purchase of a truck in the amount of \$30,000 at an interest rate of 2.5%. Payments are made from the Village's Electric Fund to retire this loan.

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

Year ending December 31:	OWDA Loan #2604	OWDA Loan #1456	OWDA Loan #3213	Mortgage Revenue Bonds	Truck Loan
2014	\$23,702	\$8,677	\$49,953	\$52,430	\$15,403
2015			49,953	52,441	14,119
2016			49,953	52,421	
2017			49,953	52,370	
2018			49,953	52,387	
2019-2023			174,837	262,064	
2024-2028				262,028	
2029-2033				262,064	
2034-2038				262,030	
2039-2041				157,258	
Total	<u>\$23,702</u>	<u>\$8,677</u>	<u>\$424,602</u>	<u>\$1,467,493</u>	<u>\$29,522</u>

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

6. Retirement System

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

The Ohio Revised Code also prescribes contribution rates. For 2013 and 2012, OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2013.

7. Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees.

The Village insures against injuries to employees through the Ohio Bureau of Worker's Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. American Risk Pooling Consultants, Inc. (ARPCO), a division of York Insurance Services Group, Inc. (York), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is also administered by ARPCO. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2013, PEP retained \$350,000 for casualty claims and \$150,000 for property claims.

The aforementioned casualty and property reinsurance agreement does not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective government.

Financial Position

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

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

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

7. Risk Management (Continued)

At December 31, 2012 and 2013, respectively, the liabilities above include approximately \$13.1 million and \$11.6 million of estimated incurred claims payable. The assets above also include approximately \$12.6 million and \$11.1 million of unpaid claims to be billed to approximately 466 and 475 member governments in the future, as of December 31, 2012 and 2013, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2013, the Village's share of these unpaid claims collectible in future years is approximately \$4,000.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

Contributions to PEP	
2012	2013
\$6,101	\$6,390

After one year of membership, a member may withdraw on the anniversary of the date of joining PEP, if the member notifies PEP in writing 60 days prior to the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to PEP. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to the withdrawal.

8. Contingent Liabilities

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor.

9. Ohio Municipal Electric Generation Agency Venture (OMEGA JV5)

The Village of Arcadia is a Financing Participant with an ownership percentage of .11 %, 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.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

9. Ohio Municipal Electric Generation Agency Venture (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 & 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, 2013 Arcadia 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 \$10,749 at December 31, 2013. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

10. AMP-OHIO

The Village is a member of AMP-Ohio which is a jointly governed organization between 80 municipalities throughout Ohio, two municipalities in West Virginia, three municipalities in Pennsylvania and one municipality in Michigan. The purpose of AMP-Ohio is to provide electric capacity and energy and to furnish other services to its members.

AMP-Ohio is governed by a Board of Trustees consisting of sixteen members. Each member designates its own representative to the Board of Trustees. Eight of the trustee members are selected by their fellow AMP-Ohio members in each of the services groups. The other eight Board members are elected at large. The main source of revenues is from the sale of electric power. The Village remitted \$375,794 and \$325,683 for 2013 and 2012 respectively to the AMP-Ohio for the purchase of electric power.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

11. American Municipal Power Generating Station Project

The Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 200 kilowatts of a total 771,281 kilowatts, giving the Village a 0.03 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed *impaired* and participants were obligated to pay costs already incurred. In prior years, payment of these costs was not made due to AMP's pursuit of legal action to void them. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share at March 31, 2014, of the impaired costs is \$34,696. The Village received a credit of \$9,672 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$9,045 related to the AMPGS costs deemed to have future benefit for the project participants, leaving a net impaired cost estimate of \$15,979. The Village will make a payment in 2014. AMP financed these costs on its revolving line of credit. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the Village's payments.

The Village opted to have AMP bill the entire amount in August, 2014 pursuant to Ordinance 2014-5. The amount due will be \$15,979.00 in stranded costs and \$9,045.00 in "Potential Plant Held for Future Use Liability".

12. Subsequent Events

The Village has been awarded a Safe Routes to School grant in an amount up to a maximum of \$195,000 through ODOT. The award includes construction of sidewalks in front of the school, relocation of existing flasher, and improvements of State Route 12 and County Road 216 intersection.

On June 4, 2014, the Court Ordered the Village to transfer \$237,896 (along with any additional funds received since the time of application) from the Sewer Debt Fund to the General Fund since the funds are no longer required for sewer debt.

13. Segment Information

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric Generation Agency (OMEGA) Joint Ventures as described in Note 10. The Village is liable for debt related to the financing of the OMEGA joint ventures. The activity is accounted for in the Village's Electric Fund, which is reported as part of the combined Enterprise Fund Type in the financial statements. Summary financial information for the Electric Fund is presented below:

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012
(Continued)**

13. Segment Information (Continued)

	2013	2012
Condensed Operating Information:		
Operating Receipts		
Charges for Services	\$511,700	\$514,055
Operating Expenses	490,341	429,093
Operating Income	21,359	84,962
Nonoperating Receipts (Disbursements)		
Principal Payments	(8,558)	(5,217)
Interest Payments	(4,251)	(6,314)
Other Nonoperating Receipts (Disbursements)	(58,604)	(36,806)
Change in Fund Cash Balance	(50,054)	36,625
Beginning Fund Cash Balance	346,381	309,756
Ending Fund Cash Balance	<u>\$296,327</u>	<u>\$346,381</u>

14. Interfund Transfers

During 2012, the General Fund made a transfer to the Storm Sewer Improvement Fund to cover engineering cost for the storm sewer project in the amount of \$8,900.

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

Village of Arcadia
Hancock County
104 Gibson Street, P.O. Box 235
Arcadia, Ohio 44804-0235

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Village of Arcadia, Hancock County, Ohio (the Village) as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, and have issued our report thereon dated July 16, 2014 wherein we noted the Township followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. We consider finding 2013-003 described in the accompanying schedule of findings to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of internal control deficiencies less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider finding 2013-001 described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2013-001 and 2013-002.

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

July 16, 2014

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013 AND 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-001

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code § 5705.10(C), requires all revenue derived from a special levy to be credited to a special fund for the purpose for which the levy was made.

Ohio Rev. Code § 5705.10(D), requires all revenue derived from a source other than general property tax, and which the law prescribes shall be used for a particular purpose, to be paid into a special fund for such purpose.

The Village received \$2,796 in rollback and homestead monies in 2013 and \$1,325 in the second half of 2012, which was credited to the General Fund instead of the Storm Sewer Improvement Fund, as required by the County Auditor settlement sheets.

This resulted in a misstatement of financial activity in the respective funds. Improper reporting of receipts and disbursements could cause management to draw inaccurate conclusions regarding its fiscal position.

Management has included audit adjustments in the accompanying financial statements to correctly post these revenues to the applicable funds.

Financial activity should be properly reported in the accounting ledgers so management can better assess whether or not financial goals are being met on an ongoing basis. As part of the monitoring process, management should review its records to make sure all amounts are properly reflected in the appropriate funds.

FINDING NUMBER 2013-002

Noncompliance Citation

Ohio Rev. Code § 5705.41(D)(1), provides in part that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer the amount required for the order or contract has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the requirement stated above where a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, each of which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

"Then and Now" Certificate – If the fiscal officer can certify both at the time the contract or order was made ("then"), and at the time the fiscal officer is completing the certification ("now"), sufficient funds were available or in the process of collection, to the credit of an appropriate fund free from any previous encumbrances, the Council can authorize the drawing of a warrant for the payment of the amount due. The Council has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution. Amounts less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided the expenditure is otherwise lawful.

FINDING NUMBER 2013-002
(Continued)

This does not eliminate any otherwise applicable requirement for approval of expenditures by Council.

Blanket Certificate – Fiscal officers may prepare “blanket” certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate – The Village may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification may, but need not, be limited to a specific vendor. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

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

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Village’s funds exceeding budgetary spending limitations, the Fiscal Officer should certify the funds are or will be available prior to obligation by the Village. When prior certification is not possible, “then and now” certification should be used.

The Fiscal Officer should certify the full purchase amounts to which section Ohio Revised Code Section 5705.41(D) applies. The most convenient certification method is to use purchase orders which include the certification language which Ohio Revised Code Section 5705.41(D) requires for the authorization of disbursements. The Fiscal Officer should sign the certification prior to incurring a commitment, and only when the requirements of Ohio Revised Code Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

FINDING NUMBER 2013-003

Material Weakness – Monitoring Village Financial Activity

We identified various transactions which were improperly classified as follows:

- In 2012, the Village received an OPWC grant paid directly to the vendor and the Village did not record the amount on the books. Intergovernmental revenue and capital outlay was increased in the special revenue fund in the amount of \$57,436.
- In 2013, legal fees were posted as capital outlay instead of general government in the general fund in the amount of \$31,604.
- Debt principal and interest payments were posted as capital outlay and contractual services disbursements in the enterprise funds in the amounts of \$115,149 and \$113,901 in 2013 and 2012, respectively.

**FINDING NUMBER 2013-003
(Continued)**

- In 2013, loan proceeds on a truck were posted as charges for services instead of other debt proceeds in the enterprise fund in the amount of \$30,000.

The financial statements have been adjusted to reflect these reclassifications.

Accurate financial reporting is the responsibility of the Fiscal Officer and Village Council and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. To ensure the Village's financial statements and notes to the financial statements are complete and accurate, we recommend the Fiscal Officer post all transactions in accordance with the guidance established by the Ohio Village Officers' Handbook issued by the Auditor of State and Council adopt procedures for reviewing the financial statements for accuracy.

Officials' Response:

We did not receive a response from Officials to the findings reported above.

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**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Ohio Rev. Code § 5705.10 (C) and (D) due to incorrect posting of levy revenues to specific funds.	No	Not corrected and reissued as Finding 2013-001 in this report.
2011-002	Ohio Rev. Code § 5705.41(D)(1) for failure to certify expenditures.	No	Not corrected and reissued as Finding 2013-002 in this report.
2011-003	Material weakness due to errors in financial reporting.	No	Not corrected and reissued as Finding 2013-003 in this report.

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Dave Yost • Auditor of State

VILLAGE OF ARCADIA

HANCOCK 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
AUGUST 5, 2014