VILLAGE OF ARCADIA
HANCOCK COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2017-2016

OHIO AUDITOR OF STATE
KEITH FABER

VILLAGE OF ARCADIA
HANCOCK COUNTY

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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 of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Arcadia, Hancock County, Ohio (the Village) as of and for the years ended December 31, 2017 and 2016.

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 such 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 opinions.

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2017 and 2016, and the respective 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 cash balances, receipts and disbursements by fund type, and related notes of the Village of Arcadia, Hancock County as of December 31, 2017 and 2016, 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 2.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2019, 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.

Keith Faber
Auditor of State

Columbus, Ohio

January 30, 2019

VILLAGE OF ARCADIA
HANCOCK COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCES (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	$39,719	$15,272		$54,991
Intergovernmental	29,020	28,736		57,756
Fines, Licenses and Permits	180			180
Earnings on Investments	1,244	132		1,376
Miscellaneous	5,965			5,965
Total Cash Receipts	76,128	44,140		120,268
Cash Disbursements				
Current:				
Public Health Services	3,886			3,886
Leisure Time Activities	842			842
Community Environment	11,220			11,220
Transportation		10,587		10,587
General Government	111,352	310		111,662
Capital Outlay	9,224	7,374		16,598
Total Cash Disbursements	136,524	18,271		154,795
Net Change in Fund Cash Balances	(60,396)	25,869		(34,527)
Fund Cash Balances, January 1	282,208	248,384	$9,500	540,092
Fund Cash Balances, December 31				
Restricted		274,253	9,500	283,753
Assigned	221,812			221,812
Fund Cash Balances, December 31	$221,812	$274,253	$9,500	$505,565

See accompanying notes to the basic financial statements

VILLAGE OF ARCADIA
HANCOCK COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGE IN FUND BALANCES (REGULATORY CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2017

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	$1,048,859
Operating Cash Disbursements	
Personal Services	93,709
Employee Fringe Benefits	16,053
Contractual Services	647,965
Supplies and Materials	59,746
Other	2,190
Total Operating Cash Disbursements	819,663
Operating Income	229,196
Non-Operating Receipts (Disbursements)	
Special Assessments	12,941
Miscellaneous Receipts	3,229
Capital Outlay	(23,138)
Principal Retirement	(63,077)
Interest and Other Fiscal Charges	(44,430)
Total Non-Operating Receipts (Disbursements)	(114,475)
Net Change in Fund Cash Balances	114,721
Fund Cash Balances, January 1	783,986
Fund Cash Balances, December 31	$898,707

See accompanying notes to the basic financial statements

Note 1 - Reporting Entity

The Village of Arcadia (the Village), Hancock County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, and park operations. The Village contracts with Washington Township to receive fire protection services.

Joint Venture, Public Entity Risk Pool, and Long Term Purchase Commitments

The Village participates in jointly governed organizations and a public entity risk pool. Notes 7, 10-12, and 15 to the financial statements provides additional information for these entities. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for the proprietary fund type which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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*** The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.
>
> ***Storm Sewers Improvement*** This fund receives tax proceeds to repair and maintain storm drainage within the Village.

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*** The water fund receives charges for services from consumers and accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village.
>
> ***Electric Fund*** The electric fund receives charges for services from consumers and accounts for the provision of electric services to the residents and commercial users within the Village.

Basis of Accounting

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

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

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

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

Encumbrances The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 3.

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.

Capital Assets

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

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.

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:

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

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.

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.

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.

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.

Note 3 - Compliance

Contrary to Ohio Rev. Code Section 5705.10(D), the Village inappropriately recorded Homestead and Rollback Intergovernmental Revenue in the General Fund when they should have been recorded in the Sewer Improvement Special Revenue Fund.

Note 4 - Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$64,095	$76,128	$12,033
Special Revenue	51,481	44,140	(7,341)
Enterprise	484,400	1,065,029	580,629
Total	$599,976	$1,185,297	$585,321

2017 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Actual Expenditures	Variance
General	$ 155,789	$ 137,229	$ 18,560
Special Revenue	223,984	18,323	205,661
Enterprise	1,300,210	951,199	349,011
	$ 1,679,983	$ 1,106,751	$ 573,232

Note 5 – 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:

	2017
Demand deposits	$1,110,835
Other time deposits (savings and NOW accounts)	293,437
Total deposits	$1,404,272

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized through the Ohio Pooled Collateral System (OPCS).

Note 6 – Taxes

Property Taxes

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

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

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

Note 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. 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 York. 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, 2017, PEP retained $350,000 for casualty claims and $100,000 for property claims.

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

Financial Position
PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2017.

	2017
Assets	$44,452,326
Liabilities	(13,004,011)
Net Position	$31,448,315

At December 31, 2017 the liabilities above include approximately $11.8 million of estimated incurred claims payable. The assets above also include approximately $11.2 million of unpaid claims to be billed. The Pool's membership increased to 527 members in 2017. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2017, 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.

2017 Contributions to PEP
$6,814

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.

Note 8 - Defined Benefit Pension Plan

Ohio Public Employees Retirement

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

The Ohio Revised Code also prescribes contribution rates. 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, 2017.

Note 9 - Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

Note 10 – Debt

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
Water System Mortgage Revenue Bonds	$759,700	4.50%
Ohio Water Development Authority Loan #3213	193,884	6.13%
Total	$953,584	

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 a 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 Ohio Water Development Authority (OWDA) loan #3213 relates to a waterline to the Red Hawk Run subdivision. The Village will repay the loan in semiannual installments over 20 years. Water receipts collateralize the loan. The Village has agreed to set utility rates and special assessments sufficient to cover OWDA debt service requirements.

Amortization

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

Year Ending December 31:	OWDA Loan #3213	Water System Mortgage Revenue Bonds
2018	$46,026	$52,386
2019	46,862	52,468
2020	47,750	52,408
2021	48,694	52,413
2022	24,719	52,377
2023-2027		262,017
2028-2032		262,030
2033-2037		262,115
2038-2041		209,618
Total	$214,051	$1,257,832

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, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 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. 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. These amounts will be recorded as they become estimable. Since December 31, 2015, the Village's allocation of additional costs incurred by the project is $413 and interest expense incurred on AMP's line-of-credit of $71. The Village made payments in 2017 totaling $86, leaving a net impaired cost estimate of $62 at December 31, 2017.

Note 11 – Joint Venture

<u>Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)</u>

The Village of Arcadia is a Financing Participant with an ownership percentage of 0.11%, 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.

Also pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2017, Arcadia has met its debt coverage obligation.

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

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued $153,415,000 and $13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of $56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of $116,910,000, which resulted in a savings to the membership of $34,951,833 from the periods 2005 through 2024. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was $65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of $49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to $49,243,377 at the time of refunding as compared to its value at December 31, 2015 of $49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs. The Village's net investment to date in OMEGA JV5 was $3,287 at December 31, 2017. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

Note 12 – Long Term Purchase Commitments

Combined Hydroelectric Projects

AMP owns and operates three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the "*Combined Hydroelectric Projects*"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects is in commercial operation and consists of run-of-the-river hydroelectric generating facilities on existing Army Corps dams and includes associated transmission facilities. AMP holds the licenses from FERC for the Combined Hydroelectric Projects.

To provide financing for the Combined Hydroelectric Projects, AMP has issued eight series of its Combined Hydroelectric Projects Revenue Bonds (the "*Combined Hydroelectric Bonds*"), in an original aggregate principal amount of $2,254,955,000 and consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Combined Hydroelectric Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members. As of December 31, 2017, $2,150,625,294 aggregate principal amount of the Combined Hydroelectric Bonds and approximately $126.9 million aggregate principal amount of subordinate obligations, consisting of notes evidencing draws on the Line of Credit, were outstanding under the indenture securing the Combined Hydroelectric Bonds.

The Village has executed a take-or-pay power sales contract with AMP as a participant of the Combined Hydroelectric Projects of 100 kW or 0.05% of capacity and associated energy from the Combined Hydroelectric Projects.

PSEC

On December 20, 2007, AMP acquired a 23.26% undivided ownership interest (the "*PSEC Ownership Interest*") in the Prairie State Energy Campus ("*PSEC*"), a two-unit, supercritical coal-fired power plant designed to have a net rated capacity of approximately 1,582 MW and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company ("*AMP 368 LLC*"). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007. Unit 1 of the PSEC commenced operations in the second quarter of 2012 and Unit 2 of the PSEC commenced operations in the fourth quarter of 2012.

From July 2008 through September 2010, AMP issued five series of Prairie State Energy Campus Revenue Bonds (collectively, the "*Initial Prairie State Bonds*") to finance PSEC project costs and PSEC related expenses. The Initial Prairie State Bonds consist of tax-exempt, taxable and tax advantaged Build America Bonds issued in the original aggregate principal amount of $1,696,800,000. On January 14, 2015 and November 30, 2017, AMP issued bonds to refund all of the callable tax-exempt Initial Prairie State Bonds issued in 2008 and 2009. As of December 31, 2017, AMP had $1,552,270,000 aggregate principal amount of Prairie State Bonds.

AMP sells the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract with 68 Members (the "*Prairie State Participants*"). The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

The Village has executed a take-or-pay power sales contract with AMP as a participant of the PSEC of 199 kW or 0.05% of capacity and associated energy from the PSEC.

AFEC

On July 28, 2011, AMP acquired from FirstEnergy Generation Corporation ("FirstEnergy") the Fremont Energy Center ("AFEC"), then nearing completion of construction and located in Fremont, Sandusky County, Ohio. Following completion of the commissioning and testing, AMP declared AFEC to be in commercial operation as of January 20, 2012. The AMP Fremont Energy Center is a natural gas fired, combined cycle, electric power generation plant with a capacity of 512 MW (unfired)/675 MW (fired), consisting of two combustion turbines, two heat recovery steam generators and one steam turbine and condenser.

AMP subsequently sold a 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency and entered into a power sales contract with the Central Virginia Electric Cooperative for the output associated with a 4.15% undivided ownership interest in AFEC. The output of AFEC associated with the remaining 90.69% undivided ownership interest (the "90.69% Interest") is sold to AMP Members pursuant to a take-or-pay power sales contract with 87 of its members (the "AFEC Power Sales Contract").

To provide permanent financing for the 90.69% Interest, in 2012, AMP issued, in two series $546,085,000 of its AMP Fremont Energy Center Project Revenue Bonds (the "AFEC Bonds"), consisting of taxable and tax-exempt obligations. The AFEC Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under the AFEC Power Sales Contract. On December 20, 2017, AMP issued bonds to refund all of the callable tax-exempt AFEC Bonds issued in 2012. As of December 31, 2017, $508,465,000 aggregate principal amount of AFEC Bonds was outstanding.

The Village has executed a take-or-pay power sales contract with AMP as a participant of the AFEC of 90 kW or 0.02% of capacity and associated energy from the AFEC.

Note 13 – Subsequent Events

The Village has been awarded a Safe Routes to School Federal grant in an amount up to a maximum of $195,000 through ODOT, with total estimated project costs of $233,376; the balance will be funded by the State and the Village. The award includes construction of sidewalks in front of the school, relocation of existing flasher, and improvements along State Route 12 and the intersections near the school. The project was not started until 2018.

Note 14 – Related Party

A Village Council member's husband (Brian Dinglestedt) owns his own contracting business (BD Remodeling and Home Improvement) whom the Village contracted with to perform renovations to the old Village garage, as part of the conversion process from garage to Council chambers. The Village paid him $8,802 for work performed in 2017. The Village also hired Mr. Dinglestedt as the part-time Village Administrator in 2017.

Note 15 – AMP Revenue Coverage

To provide electric service to the citizens, the Village is a member of Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture as described in Note 10. The Village is liable for debt related to the financing of the OMEGA joint venture. 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:

	2017
Total Fund Cash Balance	$470,978
Total Long-Term Debt	$80,253
Condensed Operating Information:	
Operating Receipts	
Charges for Services	619,123
Total Operating Receipts	619,123
Operating Expenses	
Personal Services	30,047
Employee Fringe Benefits	5,362
Contractual Services	483,538
Supplies and Materials	32,764
Total Operating Expenses	551,711
Operating Income (Loss)	67,412
Nonoperating Receipts (Disbursements)	
Capital Outlay	(7,882)
Principal Payments	(9,290)
Interest Payments	(608)
Other Nonoperating Receipts	3,229
Change in Fund Cash Balance	52,861
Beginning Fund Cash Balance	418,117
Ending Fund Cash Balance	$470,978

Condensed Cash Flows Information:	2017
Net Cash Provided by:	
Operating Activities	$67,412
Capital and Related Financing Activities	
Principal Payments on Capital and Related Debt	(9,290)
Interest Payments on Capital and Related Debt	(608)
Other Capital and Related Financing Activities	(4,653)
Net Cash (Used) by Capital and Related Financing Activities	(14,551)
Net Increase	52,861
Beginning Fund Cash Balance	418,117
Ending Fund Cash Balance	$470,978

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VILLAGE OF ARCADIA
HANCOCK COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN FUND BALANCE (REGULATORY CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	$39,851	$15,386		$55,237
Intergovernmental	29,165	27,589		56,754
Fines, Licenses and Permits	215			215
Earnings on Investments	954	157		1,111
Miscellaneous	2,102	58		2,160
Total Cash Receipts	72,287	43,190		115,477
Cash Disbursements				
Current:				
Public Health Services	1,368			1,368
Leisure Time Activities	308			308
Community Environment	5,766			5,766
Transportation		21,233		21,233
General Government	85,698	475		86,173
Capital Outlay		2,385		2,385
Total Cash Disbursements	93,140	24,093		117,233
Excess of Receipts Over (Under) Disbursements	(20,853)	19,097		(1,756)
Other Financing Receipts				
Sale of Capital Assets			$9,500	9,500
Net Change in Fund Cash Balances	(20,853)	19,097	9,500	7,744
Fund Cash Balances, January 1	303,061	229,287		532,348
Fund Cash Balances, December 31				
Restricted		248,384	9,500	257,884
Assigned	91,694			91,694
Unassigned	190,514			190,514
Fund Cash Balances, December 31	$282,208	$248,384	$9,500	$540,092

See accompanying notes to the basic financial statements

VILLAGE OF ARCADIA
HANCOCK COUNTY
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS,
AND CHANGE IN FUND BALANCES (REGULATORY CASH BASIS)
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2016

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	$992,213
Operating Cash Disbursements	
Personal Services	92,916
Employee Fringe Benefits	15,593
Contractual Services	592,651
Supplies and Materials	111,380
Other	3,100
Total Operating Cash Disbursements	815,640
Operating Income	176,573
Non-Operating Receipts (Disbursements)	
Special Assessments	11,739
Miscellaneous Receipts	9,007
Capital Outlay	(392)
Principal Retirement	(60,185)
Interest and Other Fiscal Charges	(46,474)
Total Non-Operating Receipts (Disbursements)	(86,305)
Net Change in Fund Cash Balances	90,268
Fund Cash Balances, January 1	693,718
Fund Cash Balances, December 31	$783,986

See accompanying notes to the basic financial statements

Note 1 - Reporting Entity

The Village of Arcadia (the Village), Hancock County, is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, and park operations. The Village contracts with Washington Township to receive fire protection services.

Joint Venture, Public Entity Risk Pool, and Long Term Purchase Commitments

The Village participates in jointly governed organizations and a public entity risk pool. Notes 7, 10-12, and 14 to the financial statements provides additional information for these entities. The Village's management believes these financial statements present all activities for which the Village is financially accountable.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The Village's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for the proprietary fund type which are organized on a fund type basis.

Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Village are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Village for any purpose provided it is expended or transferred according to the general laws of Ohio.

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*** The street construction maintenance and repair fund accounts for and reports that portion of the State gasoline tax and motor vehicle license registration fees restricted for construction, maintenance, and repair of streets within the Village.
>
> ***Storm Sewers Improvement*** This fund receives tax proceeds to repair and maintain storm drainage within the Village.

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*** The water fund receives charges for services from consumers and accounts for the provision of water treatment and distribution to the residents and commercial users located within the Village.
>
> ***Electric Fund*** The electric fund receives charges for services from consumers and accounts for the provision of electric services to the residents and commercial users within the Village.

Basis of Accounting

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

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D) permit.

Budgetary Process

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

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

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

Encumbrances The Ohio Revised Code requires the Village to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 3.

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.

Capital Assets

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

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.

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:

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

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.

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.

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.

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.

Note 3 – Compliance

Contrary to Ohio Rev. Code § 5705.10(F), the Village inappropriately recorded proceeds from the sale of permanent improvements.

Note 4 - Budgetary Activity

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$51,118	$72,287	$21,169
Special Revenue	59,717	43,190	(16,527)
Capital Projects		9,500	9,500
Enterprise	914,700	1,012,959	98,259
Total	$1,025,535	$1,137,936	$112,401

2016 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	$114,492	$93,929	$20,563
Special Revenue	227,800	24,177	203,623
Enterprise	1,324,138	924,401	399,737
Total	$1,666,430	$1,042,507	$623,923

Note 5 – 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:

	2016
Demand deposits	$1,030,647
Other time deposits (savings and NOW accounts)	293,431
Total deposits	$1,324,078

Deposits

Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Note 6 – Taxes

Property Taxes

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

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

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

Note 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. 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 York. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

Casualty and Property Coverage
APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2016, PEP retained $350,000 for casualty claims and $100,000 for property claims.

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

Financial Position
PEP's financial statements (audited by other auditor's) conform with generally accepted accounting principles, and reported the following assets, liabilities and net position at December 31, 2016.

	2016
Assets	$42,182,281
Liabilities	(13,396,700)
Net Position	$28,785,581

At December 31, 2016 the liabilities above include approximately 12.0 million of estimated incurred claims payable. The assets above also include approximately $11.5 million of unpaid claims to be billed. The Pool's membership increased to 520 members in 2016. These amounts will be included in future contributions from members when the related claims are due for payment. As of December 31, 2016, the Village's share of these unpaid claims collectible in future years is approximately $5,000.

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.

2016 Contributions to PEP
$7,341

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.

Note 8 - Defined Benefit Pension Plan

Ohio Public Employees Retirement

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

The Ohio Revised Code also prescribes contribution rates. 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, 2016.

Note 9 - Postemployment Benefits

OPERS offers a cost-sharing, multiple-employer defined benefit postemployment plan, which includes multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0 percent during calendar year 2016.

Note 10 – Debt

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
Water System Mortgage Revenue Bonds	$777,100	4.50%
Ohio Water Development Authority Loan #3213	230,271	6.13%
Total	$1,007,371	

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 a 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 Ohio Water Development Authority (OWDA) loan #3213 relates to a waterline to the Red Hawk Run subdivision. The Village will repay the loan in semiannual installments over 20 years. Water receipts collateralize the loan. The Village has agreed to set utility rates and special assessments sufficient to cover OWDA debt service requirements.

Amortization

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

Year Ending December 31:	Water System Mortgage Revenue Bonds	OWDA Loan #3213
2017	$52,421	$44,499
2018	52,370	45,240
2019	52,386	46,026
2020	52,468	46,862
2021	52,408	47,750
2022-2026	261,979	73,413
2027-2031	262,081	
2032-2036	262,074	
Total	$1,048,187	$303,790

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, the payment of these costs was not considered probable due to AMP's pursuit of legal action to void them. As a result of a March 31, 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. 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. These amounts will be recorded as they become estimable. Since December 31, 2015, the Village's allocation of additional costs incurred by the project is $349 and interest expense incurred on AMP's line-of-credit of $71. The Village made payments in 2016 totaling $336, leaving a net impaired cost estimate of $84 at December 31, 2016.

Note 11 – Joint Venture

<u>Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5)</u>

The Village of Arcadia is a Financing Participant with an ownership percentage of 0.11%, 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.

Also pursuant to the Agreement, each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2016, Arcadia has met its debt coverage obligation.

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

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued $153,415,000 and $13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of $56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of $116,910,000, which resulted in a savings to the membership of $34,951,833 from the periods 2005 through 2024. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was $65,891,509 at February 28, 2014. On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of $49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to $49,243,377 at the time of refunding as compared to its value at December 31, 2015 of $49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs. The Village's net investment to date in OMEGA JV5 was $3,287 at December 31, 2016. Complete financial statements for OMEGA JV5 may be obtained from AMP or from the State Auditor's website at www.ohioauditor.gov.

Note 12 – Long Term Purchase Commitments

Combined Hydroelectric Projects

AMP owns and operates three hydroelectric projects, the Cannelton, the Smithland and the Willow Island hydroelectric generating facilities (the "*Combined Hydroelectric Projects*"), all on the Ohio River, with an aggregate generating capacity of approximately 208 MW. Each of the Combined Hydroelectric Projects is in commercial operation and consists of run-of-the-river hydroelectric generating facilities on existing Army Corps dams and includes associated transmission facilities. AMP holds the licenses from FERC for the Combined Hydroelectric Projects.

To provide financing for the Combined Hydroelectric Projects, AMP has issued eight series of its Combined Hydroelectric Projects Revenue Bonds (the "*Combined Hydroelectric Bonds*"), in an original aggregate principal amount of $2,254,955,000 and consisting of taxable, tax-exempt and tax advantaged obligations (Build America Bonds, Clean Renewable Energy Bonds and New Clean Renewable Energy Bonds). The Combined Hydroelectric Bonds are secured by a master trust indenture and payable from amounts received by AMP under a take-or-pay power sales contract with 79 of its Members.

The Village has executed a take-or-pay power sales contract with AMP as a participant of the Combined Hydroelectric Projects of 100 kW or 0.05% of capacity and associated energy from the Combined Hydroelectric Projects.

PSEC

On December 20, 2007, AMP acquired a 23.26% undivided ownership interest (the "*PSEC Ownership Interest*") in the Prairie State Energy Campus ("*PSEC*"), a two-unit, supercritical coal-fired power plant designed to have a net rated capacity of approximately 1,582 MW and associated facilities in southwest Illinois. The PSEC Ownership Interest is held by AMP 368 LLC, a single-member Delaware limited liability company ("*AMP 368 LLC*"). AMP is the owner of the sole membership interest in AMP 368 LLC. Construction of the PSEC commenced in October 2007. Unit 1 of the PSEC commenced operations in the second quarter of 2012 and Unit 2 of the PSEC commenced operations in the fourth quarter of 2012.

From July 2008 through September 2010, AMP issued five series of Prairie State Energy Campus Revenue Bonds (collectively, the "*Initial Prairie State Bonds*") to finance PSEC project costs and PSEC related expenses. The Initial Prairie State Bonds consist of tax-exempt, taxable and tax advantaged Build America Bonds issued in the original aggregate principal amount of $1,696,800,000. On January 14, 2015, AMP issued bonds to refund all of the callable tax-exempt Initial Prairie State Bonds issued in 2008 and 2009.

AMP sells the power and energy from the PSEC Ownership Interest pursuant to a take-or-pay power sales contract with 68 Members (the "*Prairie State Participants*"). The Prairie State Bonds are net revenue obligations of AMP, secured by a master trust indenture, payable primarily from the payments to be made by the Prairie State Participants under the terms of the Prairie State Power Sales Contract.

The Village has executed a take-or-pay power sales contract with AMP as a participant of the PSEC of 199 kW or 0.05% of capacity and associated energy from the PSEC.

AFEC

On July 28, 2011, AMP acquired from FirstEnergy Generation Corporation ("FirstEnergy") the Fremont Energy Center ("AFEC"), then nearing completion of construction and located in Fremont, Sandusky County, Ohio. Following completion of the commissioning and testing, AMP declared AFEC to be in commercial operation as of January 20, 2012. The AMP Fremont Energy Center is a natural gas fired, combined cycle, electric power generation plant with a capacity of 512 MW (unfired)/675 MW (fired), consisting of two combustion turbines, two heat recovery steam generators and one steam turbine and condenser.

AMP subsequently sold a 5.16% undivided ownership interest in AFEC to Michigan Public Power Agency and entered into a power sales contract with the Central Virginia Electric Cooperative for the output associated with a 4.15% undivided ownership interest in AFEC. The output of AFEC associated with the remaining 90.69% undivided ownership interest (the "90.69% Interest") is sold to AMP Members pursuant to a take-or-pay power sales contract with 87 of its members (the "AFEC Power Sales Contract").

To provide permanent financing for the 90.69% Interest, in 2012, AMP issued, in two series $546,085,000 of its AMP Fremont Energy Center Project Revenue Bonds (the "AFEC Bonds"), consisting of taxable and tax-exempt obligations. The AFEC Bonds are net revenue obligations of AMP, secured by a master trust indenture and payable from amounts received by AMP under the AFEC Power Sales Contract.

The Village has executed a take-or-pay power sales contract with AMP as a participant of the AFEC of 90 kW or 0.02% of capacity and associated energy from the AFEC.

Note 13 – Subsequent Events

The Village has been awarded a Safe Routes to School Federal grant in an amount up to a maximum of $195,000 through ODOT, with total estimated project costs of $233,376; the balance will be funded by the State and the Village. The award includes construction of sidewalks in front of the school, relocation of existing flasher, and improvements along State Route 12 and the intersections near the school. The project was not started until 2018.

Note 14 – AMP Revenue Coverage

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

	2016
Total Fund Cash Balance	$418,117
Total Long-Term Debt	$84,820
Condensed Operating Information:	
Operating Receipts	
Charges for Services	593,377
Total Operating Receipts	593,377
Operating Expenses	
Personal Services	34,159
Employee Fringe Benefits	5,516
Contractual Services	431,995
Supplies and Materials	46,104
Total Operating Expenses	517,774
Operating Income (Loss)	75,603
Nonoperating Receipts (Disbursements)	
Capital Outlay	(196)
Principal Payments	(9,230)
Interest Payments	(510)
Other Nonoperating Receipts	3,298
Change in Fund Cash Balance	68,965
Beginning Fund Cash Balance	349,152
Ending Fund Cash Balance	$418,117

Condensed Cash Flows Information:	2016
Net Cash Provided by:	
Operating Activities	$75,603
Capital and Related Financing Activities	
Principal Payments on Capital and Related Debt	(9,230)
Interest Payments on Capital and Related Debt	(510)
Other Capital and Related Financing Activities	3,102
Net Cash (Used) by Capital and Related Financing Activities	(6,638)
Net Increase	68,965
Beginning Fund Cash Balance	349,152
Ending Fund Cash Balance	$418,117

OHIO AUDITOR OF STATE
KEITH FABER

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 cash balances, receipts, and disbursements by fund type of the Village of Arcadia, Hancock County, Ohio (the Village) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, and have issued our report thereon dated January 30, 2019 wherein we noted the Village 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 opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Village's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Village's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2017-002 through 2017-004 to be material weaknesses.

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 2017-001, 2017-003 through 2017-005.

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 report is not suitable for any other purpose.

Keith Faber
Auditor of State

Columbus, Ohio

January 30, 2019

SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016

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

FINDING NUMBER 2017-001

Noncompliance

Ohio Rev. Code § 2921.42(A)(1) provides no public official shall knowingly authorize or employ the authority or influence of his office to secure authorization of any public contract in which the public official, a member of the public official's family, or any of the public official's business associates has an interest. **Ohio Rev. Code § 2921.42(H)** provides that any public contract in which a public official, a member of the public official's family, or any of the public official's business associates has an interest in violation of this section is void and unenforceable.

Due to a lack of understanding of Ohio Ethics laws, Rhonda Dingelstedt, in her capacity as a council member of the Village, approved the hiring of her husband, Brian Dingelstedt, as a part-time Administrator for the Village. Gross wages paid to Brian Dingelstedt, in his capacity as Administrator during 2017, totaled $4,482. There is no evidence Rhonda Dingelstedt abstained from voting on the hiring of her husband.

Council members should abstain from voting on hiring members of their family as employees of the Village.

This matter will be referred to the Ohio Ethics Commission for their consideration.

FINDING NUMBER 2017-002

Material Weakness – Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16. In addition, Governmental Accounting Standards Board (GASB) Statement No. 54 (codified as GASB Cod 1800.165-.179) requires fund balance be divided into one of five classifications based on the extent to which constraints are imposed upon the resources. The following adjustments are included in the accompanying 2017 and 2016 financial statements:

- In 2017, debt payments for the Village's OWDA and USDA debt were incorrectly posted as Capital Outlay expenditures totaling $97,609, instead of as Principal and Interest totaling $53,787 and $43,822 respectively, in the Water Operating Enterprise Fund. Also in 2017, debt payments for the Village's AMP Ohio JV-5 debt were incorrectly posted as Contractual Service expenditures totaling $9,898, instead of as Principal and Interest totaling $9,290 and $608, respectively, in the Electric Operating Enterprise Fund.

- In 2016, debt payments for the Village's OWDA and USDA debt were incorrectly posted as Capital Outlay expenditures totaling $96,919, instead of as Principal and Interest totaling $50,955 and $45,964 respectively, in the Water Operating Enterprise Fund. Also in 2016, debt payments for the Village's AMP Ohio JV-5 debt were incorrectly posted as Contractual Service expenditures totaling $9,740, instead of as Principal and Interest totaling $9,230 and $510, respectively, in the Electric Operating Enterprise Fund.

- In 2016, Homestead and Rollback monies totaling $2,968 were incorrectly posted as Property Taxes instead of as Intergovernmental Revenues in the Special Revenue Fund.

- In 2016, utilities receipts were incorrectly posted as Gasoline Tax in the Street Construction Maintenance and Repair (SCMR) Fund and State Highway Fund, totaling $3,880 and $315, respectively. Instead of voiding the original receipt, the Fiscal Officer issued a memo check to correct the posting error, reducing the SCMR Fund and State Highway Funds by the amount of overstatement. The check was never processed. As a result, both revenues and expenditures were overstated in these funds.

- Various amounts and note disclosures required modification in 2016 and 2017, as they were not appropriately updated or information was not presented. Specifically, significant issues were noted related to debt reporting, as follows: Debt notes were incomplete and did not include balances at 12/31 of either year, disclosures for each debt component, or amortization schedules; the AMPGS disclosure was not included for either year and the disclosure information was not provided during the audit; the AMP Ohio disclosures weren't included in either year as part of the report and the disclosure information was not provided during the audit; the Long-Term Purchase Commitments for the Combined Hydroelectric Projects, the Prairie State Energy Campus Project, and the Fremont Energy Project were not disclosed and the disclosure information was not provided during the audit; and the AMP Revenue Coverage calculation was not completed for either year.

- Assigned fund balance classification includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. In accordance with GASB Cod. 1800.176, when the appropriation measure is adopted for the subsequent year, if a portion of existing fund balance is included as a budgetary resource, then that portion of fund balance should be classified as assigned. This would be applicable to the general fund as it is the only fund with a positive unassigned fund balance. The 2018 and 2017 permanent appropriation measures for the General Fund exceeded estimated receipts as follows:

	2018	2017
Estimated Receipts	$63,367	$64,095
Appropriations	285,830	155,789
Deficit	($222,463)	($91,694)

  All of the General Fund's balance was incorrectly recognized as Unassigned instead of recognizing the deficit noted above as Assigned for 2017. Of the 2016 General Fund balance, $91,694 was incorrectly recognized as Unassigned.

These errors were the result of inadequate policies and procedures in reviewing the financial statements. Failure to complete accurate financial statements could lead to Council making misinformed decisions. The accompanying financial statements, notes to the financial statements, and accounting records have been adjusted to correct these errors. Additional errors were noted in smaller relative amounts and for additional reasons.

To help ensure the Village's financial statements and notes to the statements are complete and accurate, the Village should adopt policies and procedures, including a final review of the statements and notes by the Fiscal Officer and Council, to identify and correct errors and omissions. The Fiscal Officer should also review the Village Handbook and Audit Bulletin 2011-004 for information on GASB Statement No. 54.

FINDING NUMBER 2017-003

Noncompliance and Material Weakness

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

The Village inappropriately recorded $2,768 of Homestead and Rollback Intergovernmental Revenue in the General Fund as Property Taxes in 2017. Given the source of the revenue, these receipts should have been recorded in the Sewer Improvement Special Revenue Fund as Intergovernmental Revenue. Additional errors in smaller relative amounts were also noted. Audit adjustments are reflected in the financial statements and in the accounting records correcting these misstatements.

The lack of controls over the posting of financial transactions decreases the reliability of financial data at year-end and can result in undetected errors and irregularities. The Village should implement controls to help ensure all transactions are reviewed to help ensure posting to the proper funds.

FINDING NUMBER 2017-004

Noncompliance and Material Weakness

Ohio Rev. Code § 5705.10(F) requires revenue received from the sale of a permanent improvement to be paid into the sinking fund, the bond retirement fund, or a special fund for the construction or acquisition of permanent improvements. **Ohio Rev. Code § 5705.01(E)** defines “permanent improvement" or "improvement" to mean any property, asset, or improvement with an estimated life or usefulness of five years or more, including land and interests therein, and reconstructions, enlargements, and extensions thereof having an estimated life or usefulness of five years or more.

In 2016, the Village inappropriately recorded $1,950 from the sale of a bucket truck in the General Fund as miscellaneous receipts; the remaining amount, also totaling $1,950, was inappropriately recorded in the Electric Operating Fund as miscellaneous receipts. Further, in 2016, the Village inappropriately recorded $5,600 from the sale of a digger truck in the Electric Fund as miscellaneous receipts. These receipts should have been recorded in the Capital Projects Fund as sale of capital assets. Audit adjustments are reflected in the financial statements and in the accounting records correcting the misstatement.

The lack of controls over the posting of financial transactions decreases the reliability of financial data at year-end and can result in undetected errors and irregularities.

The Village should implement controls to help ensure all transactions are reviewed and posted to the proper funds.

FINDING NUMBER 2017-005

Finding for Recovery – Overpayment of Employee

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only.

Jeffrey Hanna, the former Administrator of the Village, was terminated effective August 8, 2016. He was paid, in two checks, on August 19, 2016, for accrued but unused sick leave, compensatory time, and vacation leave. When recalculating Mr. Hanna's pay-out and verifying it with supporting documentation, we noted he was paid for 82.75 hours of vacation leave; his balance at August 8 was 32 hours. As a result, Mr. Hanna was overpaid $1,076. This error was due to a lack of documentation regarding the calculation of the severance pay-out, as well as a lack of monitoring controls over payroll transactions.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code Section §117.28, a finding for recovery for public monies illegally expended is hereby issued against Jeffrey Hanna, the employee; Jenny Holman, Fiscal Officer at the time the payments were made; and Travelers Casualty and Insurance Company of America, the Fiscal Officer's bonding company, jointly and severally, in the amount of $1,076 and in favor of the Village of Arcadia's General Fund in the amount of $205, the Street Construction Maintenance and Repair and the Storm Sewers Improvement Fund in the amount of $54, respectively, the Water Operating Fund in the amount of $387, the Sewer Operating Fund in the amount of $75, and the Electric Operating Fund in the amount of $301.

The Village should document the details of each severance pay-out and maintain all supporting documentation to substantiate the amounts and rates used in the calculation. Such documentation should be attached to a copy of the check issued and maintained. Further, Council should review and approve all pay-out calculations; if adequate supporting documentation is not attached, payment should be denied until such support is provided.

Officials' Response:

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

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2017 AND 2016

Finding Number	Finding Summary	Status	Additional Information
2015-001	Finding was first issued in the 2008-2009 audit. Material weakness regarding financial reporting due to errors on the financial statements.	Not corrected. Reissued as finding 2017-002 in this report.	Recurrence due to inadequate policies and procedures in reviewing the financial statements, bulletins, and the Revised Code. Village Council will perform detailed review of financial information to ensure fund balances and debt activity are properly reported.

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OHIO AUDITOR OF STATE
KEITH FABER

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
FEBRUARY 19, 2019

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