



**Auditor of State
Betty Montgomery**

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Village Council:

We have audited the accompanying financial statements of the Village of Arcadia, Hancock County, (the Village) as of and for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the Village prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village as of December 31, 2003 and 2002, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2004 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the finance committee, management, Village Council, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 26, 2004

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 33,986	\$ 11,378	\$ 45,364
Special Assessments		2,335	2,335
Intergovernmental Receipts	69,047	21,186	90,233
Fines, Licenses, and Permits	740		740
Earnings on Investments	7,299	614	7,913
Miscellaneous	901		901
	<u>111,973</u>	<u>35,513</u>	<u>147,486</u>
Total Cash Receipts			
Cash Disbursements:			
Current:			
Public Health Services	2,674		2,674
Leisure Time Activities	1,010		1,010
Community Environment	745		745
Basic Utility Services		6,930	6,930
Transportation	26,839	14,377	41,216
General Government	104,197		104,197
	<u>135,465</u>	<u>21,307</u>	<u>156,772</u>
Total Cash Disbursements			
Total Receipts Over/(Under) Disbursements	(23,492)	14,206	(9,286)
Fund Cash Balances, January 1	213,283	79,262	292,545
Fund Cash Balances, December 31	<u>\$ 189,791</u>	<u>\$ 93,468</u>	<u>\$ 283,259</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2003

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 525,011
Miscellaneous	3,482
	528,493
Total Operating Cash Receipts	528,493
Operating Cash Disbursements:	
Personal Services	86,442
Contractual Services	306,626
Capital Outlay	16,872
	409,940
Total Operating Cash Disbursements	409,940
Operating Income	118,553
Non-Operating Cash Receipts:	
Special Assessments	19,526
Other Non-Operating Receipts	3,059
	22,585
Total Non-Operating Cash Receipts	22,585
Non-Operating Cash Disbursements:	
Debt Service	
Redemption of Principal	60,702
Interest and Other Fiscal Charges	96,808
Other Non-Operating Cash Disbursements	2,700
	160,210
Total Non-Operating Cash Disbursements	160,210
Excess of Disbursements Over Receipts	(19,072)
Fund Cash Balances, January 1	739,315
Fund Cash Balances, December 31	\$ 720,243

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
Cash Receipts:			
Property Tax and Other Local Taxes	\$ 34,427	\$ 11,240	\$ 45,667
Special Assessments		11,678	11,678
Intergovernmental Receipts	52,184	41,434	93,618
Fines, Licenses, and Permits	105		105
Earnings on Investments	19,001	1,380	20,381
Miscellaneous	1,568		1,568
	<u>107,285</u>	<u>65,732</u>	<u>173,017</u>
Cash Disbursements:			
Current:			
Public Health Services	880		880
Leisure Time Activities	907		907
Community Environment	330		330
Basic Utility Services		6,805	6,805
Transportation	2,784	16,376	19,160
General Government	87,174		87,174
	<u>92,075</u>	<u>23,181</u>	<u>115,256</u>
Total Receipts Over Disbursements	15,210	42,551	57,761
Fund Cash Balances, January 1	198,073	36,711	234,784
Fund Cash Balances, December 31	<u>\$ 213,283</u>	<u>\$ 79,262</u>	<u>\$ 292,545</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	Enterprise
Operating Cash Receipts:	
Charges for Services	\$ 505,023
Operating Cash Disbursements:	
Personal Services	104,357
Contractual Services	330,303
Capital Outlay	16,500
Total Operating Cash Disbursements	451,160
Operating Income	53,863
Non-Operating Cash Receipts:	
Special Assessments	34,027
Intergovernmental Receipts	76,428
Other Non-Operating Receipts	8,018
Total Non-Operating Cash Receipts	118,473
Non-Operating Cash Disbursements:	
Debt Service	
Redemption of Principal	29,867
Interest and Other Fiscal Charges	66,821
Other Non-Operating Cash Disbursements	900
Total Non-Operating Cash Disbursements	97,588
Excess of Receipts Over Disbursements	74,748
Fund Cash Balances, January 1	664,567
Fund Cash Balances, December 31	\$ 739,315

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, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

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

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

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

Certificates of deposit are valued at cost.

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:

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

1. General Fund

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

2. Special Revenue Fund

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

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

State Highway Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing state highways within the Village.

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 that the significant costs of providing certain goods or services will be recovered through user charges. The Village had the following significant Enterprise Funds:

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

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

E. Budgetary Process

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

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

1. Appropriations

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. The Village did not use the encumbrance method of accounting.

A summary of 2003 and 2002 budgetary activity appears in Note 3.

F. Property, Plant, and Equipment

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Village's basis of accounting.

2. EQUITY IN POOLED CASH

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

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

	2003	2002
Demand deposits	\$ 950,502	\$ 978,860
Certificates of deposit	53,000	53,000
Total deposits	\$ 1,003,502	\$ 1,031,860

Deposits are either insured by the Federal Depository Insurance Corporation, collateralized by the financial institution's public entity deposit pool.

At June 30, 2003, \$101,035 of deposits were not insured or collateralized, contrary to Ohio law.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2003 and 2002 follows:

2003 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 90,184	\$ 111,973	\$ 21,789
Special Revenue	32,137	35,513	3,376
Enterprise	564,600	551,078	(13,522)
Total	\$ 686,921	\$ 698,564	\$ 11,643

2003 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 243,718	\$ 135,465	\$ 108,253
Special Revenue	65,427	21,307	44,120
Enterprise	887,659	570,150	317,509
Total	\$ 1,196,804	\$ 726,922	\$ 469,882

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 74,345	\$ 107,285	\$ 32,940
Special Revenue	29,141	65,732	36,591
Enterprise	438,600	623,496	184,896
Total	<u>\$ 542,086</u>	<u>\$ 796,513</u>	<u>\$ 254,427</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 253,928	\$ 92,075	\$ 161,853
Special Revenue	58,095	23,181	34,914
Enterprise	868,089	548,748	319,341
Total	<u>\$ 1,180,112</u>	<u>\$ 664,004</u>	<u>\$ 516,108</u>

Expenditures exceeded appropriations at the fund, function, object legal level of control in 32 instances during the 2002 and 2003 in amounts ranging from \$22 to \$85,488. In addition, the following expenditures exceeded appropriations in the following funds at year end:

Fund	Appropriation Authority	Budgetary Expenditures	Variance
December 31, 2003			
State Highway Improvement	\$ 6,954	\$ 8,011	\$ (1,057)
Water Fund	107,137	182,375	(75,238)
Sanitary Sewer Fund	68,450	76,068	(7,618)
December 31, 2002			
Water Capital Improvement		7,318	(7,318)

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by Village Council. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

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

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

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan 0215	\$ 444,877	2.00%
Ohio Water Development Authority Loan 0783	124,267	7.36%
Ohio Water Development Authority Loan 9048	548,222	6.13%
Water System Mortgage Revenue Bonds	946,000	4.50%
Promissory Note (Water Construction Fund)	60,000	5.00%
Total	<u>\$ 2,123,366</u>	

The Ohio Water Development Authority (OWDA) loans #0215 and 0783 relate to a sewer system construction project that was mandated by the Ohio Environmental Protection Agency. The loans will be repaid in semiannual installments totaling \$32,408, including interest, 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 #9048 relates to a waterline to the Red Hawk Run subdivision. The Village received \$513,809 plus accumulated interest cost of \$57,505. The loan will be repaid in semiannual installments of \$24,977, including interest, 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.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

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 percent interest. The 2003 and 2002 required amount was not repaid and is included on the 2004 payment on the amortization schedule. 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 percent 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.

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

Year ending December 31:	OWDA Loan #0215	OWDA Loan #0783	OWDA Loan #9048	Mortgage Revenue Bonds	Promissory Note
2004	\$ 47,403	\$ 17,412	\$ 49,953	\$ 52,370	\$ 28,642
2005	47,403	17,412	49,953	52,429	7,638
2006	47,403	17,412	49,953	52,465	7,638
2007	47,403	17,412	49,953	52,380	7,638
2008	47,403	17,412	49,953	52,376	7,638
2009 - 2013	237,017	87,059	249,768	262,067	17,185
2014 - 2018	23,689	8,706	249,768	262,047	
2019 - 2023			174,837	262,065	
2024 - 2028				262,028	
2029 - 2033				262,065	
2034 - 2038				262,030	
2039 - 2041				157,259	
Total	<u>\$ 497,721</u>	<u>\$ 182,825</u>	<u>\$ 924,138</u>	<u>\$ 1,991,581</u>	<u>\$ 76,379</u>

6. RETIREMENT SYSTEMS

Officials and employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS are cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OPERS members contributed 8.5 percent of their wages. The Village contributed an

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2003.

7. RISK MANAGEMENT

Risk Pool Membership

The Village belongs to the Ohio Municipal Joint Self-Insurance Pool, (the Pool), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Pool is a separate legal entity per § 2744.081 of the Ohio Revised Code. The Pool provides property and casualty insurance for its members. The Pool pays judgments, settlements and other expenses resulting for covered claims that exceed the members' deductibles.

The Pool cedes certain premiums to reinsurers or excess reinsurers. The Pool is contingently liable should any reinsurer be unable to meet its reinsurance obligations.

The Pool's financial statements (audited by other auditors) conform with generally accepted accounting principles, and reported the following assets, liabilities, and retained deficit at December 31:

	2003	2002 (Restated)
Assets	\$ 1,811,340	\$ 1,852,060
Liabilities	(3,653,152)	(3,858,213)
Retained deficit	\$ (1,841,812)	\$ (2,006,153)

The Village also provides health insurance to one employee and life insurance to full-time employees.

8. JOINT VENTURE

The Village is a participant with forty-one other municipalities in the Ohio Municipal Electric Generation Joint Venture 5 – Belleville Project. The Village of Arcadia's ownership share of this project is 0.11 percent. Each member is required to make debt service payments for the project based upon their percentage of ownership. Payment began in 1994.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)

Year ending December 31:	Participant Principal	Participant Interest	Participant Debt Service
2004	\$ 3,982	\$ 8,025	\$ 12,007
2005	4,180	7,822	12,002
2006	4,400	7,602	12,002
2007	4,637	7,366	12,003
2008	4,890	7,115	12,005
2009 - 2013	28,711	31,306	60,017
2014 - 2018	37,473	22,548	60,021
2019 - 2023	48,813	11,207	60,020
2024	11,391	612	12,003
Total	<u>\$ 148,477</u>	<u>\$ 103,603</u>	<u>\$ 252,080</u>

The joint venture was defendant in a lawsuit seeking damages for a construction project. On July 26, 2001 OMEGA JV5 issued \$13,899,981 in capital appreciation bonds to fund the legal settlement. The bonds accrete in value to \$56,125,000 and mature in 2025 through 2030. The following table represents the Village's obligation in the settlement:

Year ending December 31:	
2025	\$ 12,007
2026	12,007
2027	12,007
2028	12,007
2029	11,511
2030	2,200
Total	<u>\$ 61,739</u>

9. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003 AND 2002
(Continued)**

10. SUBSEQUENT EVENTS

In 2004, the Village established a Capital Projects Fund for the replacement of a traffic signal in the amount of \$77,781. This project will be funded 50 percent from a grant and 50 percent match transferred from the General Fund.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL 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 the accompanying financial statements of the Village of Arcadia, Hancock County, (the Village) as of and for the years ended December 31, 2003 and 2002, and have issued our report thereon dated August 26, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. We also noted certain immaterial instances of noncompliance that we have reported to the Village's management in a separate letter dated August 26, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

Village of Arcadia
Hancock County
Independent Accountants' Report on Compliance and on Internal
Control Required by *Government Auditing Standards*
Page 2

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the Village's management in a separate letter dated August 26, 2004.

This report is intended for the information and use of the finance committee, management, and Village Council, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

August 26, 2004

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

SCHEDULE OF FINDINGS
DECEMBER 31, 2003 AND 2002

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

FINDING NUMBER 2003-001

Noncompliance Citation

Ohio Revised Code § 135.18 states the treasurer of a political subdivision must require the depository to provide as security an amount equal to the funds on deposit at all times.

Although all deposits were adequately protected at year end, the Village’s deposits exceeded the depository insurance and the pledged collateral at various times throughout 2003, including a maximum \$101,035 at June 30, 2003.

We recommend management regularly review collateral on deposits to ensure the market value of eligible securities held by qualified trustees sufficiently cover all bank deposits.

FINDING NUMBER 2003-002

Noncompliance Citation

Ohio Revised Code § 5705.41(B) states that no subdivision shall make any expenditure of money unless it has been lawfully appropriated as provided in such chapter.

Expenditures exceeded appropriations at the fund, function, object legal level of control in 32 instances during the 2002 and 2003 in amounts ranging from \$22 to \$85,488. In addition, the following expenditures exceeded appropriations in the following funds at year end:

Fund	Appropriation Authority	Budgetary Expenditures	Variance
December 31, 2003			
State Highway Improvement	\$ 6,954	\$ 8,011	\$ (1,057)
Water Fund	107,137	182,375	(75,238)
Sanitary Sewer Fund	68,450	76,068	(7,618)
December 31, 2002			
Water Capital Improvement		7,318	(7,318)

The Clerk should not certify the availability of funds and should deny payment requests exceeding appropriations. The Clerk may request Council to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

**VILLAGE OF ARCADIA
HANCOCK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2003 AND 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> :
2001-30232-001	ORC § 117.28 finding for recovery for duplicate payment	Yes	
2001-30232-002	ORC § 5705.41(B) expenditures in excess of appropriations.	No	Improvement has been made reducing this to a management letter comment.
2001-30232-003	ORC § 5705.42 failure to record on-behalf grant payments to the Village financial statements.	No	Immaterial activity this audit period, reducing this to a management letter comment.



**Auditor of State
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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
SEPTEMBER 14, 2004**