

VILLAGE OF ARCANUM

DAYTON REGION, DARKE COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2003 and 2002



**Auditor of State
Betty Montgomery**

Village Council
Village of Arcanum
202 North Main Street
Arcanum, Ohio 45303

We have reviewed the Independent Auditor's Report of the Village of Arcanum, Darke County, prepared by Vanderhorst & Manning CPAs, LLC, for the audit period January 1, 2002 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Village of Arcanum is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

July 19, 2004

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**VILLAGE OF ARCANUM
DARKE COUNTY**

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Vanderhorst & Manning CPAs, LLC
6105 North Dixie Drive
Dayton, Ohio 45414

REPORT OF INDEPENDENT AUDITORS'

Village Council
Village of Arcanum
202 North Main Street
Arcanum, Ohio 45303

We have audited the accompanying financial statements of the Village of Arcanum, Darke County, Ohio (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 audits 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 audits provide a reasonable basis for our opinion.

As described 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 and reserve for encumbrances of the Village of Arcanum, Darke County, 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 a report dated June 29, 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 on considering the results of our audit.

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

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

June 29, 2004

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**VILLAGE OF ARCANUM
DARKE COUNTY**

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

	<u>Governmental Fund Types</u>				<u>Fiduciary Funds</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Expendable Trust</u>	
Cash Receipts:						
Local Taxes	\$ 278,373	\$ 8,975	\$ 29,919	\$ 0	\$ 8,422	\$ 325,689
Intergovernmental Revenues	394,112	103,105	3,702	0	1,070	501,989
Charges for Services	1,600	86,781	0	0	0	88,381
Fines, Licenses and Permits	420	0	0	0	0	420
Interest	25,512	8,295	0	0	0	33,807
Miscellaneous	20,475	16,044	0	0	0	36,519
Total Cash Receipts	<u>720,492</u>	<u>223,200</u>	<u>33,621</u>	<u>0</u>	<u>9,492</u>	<u>986,805</u>
Cash Disbursements:						
Current:						
Security of Persons and Property	\$ 235,528	\$ 52,529	\$ 0	\$ 0	\$ 7,500	\$ 295,557
Public Health Services	9,924	0	0	0	0	9,924
Leisure Time Activities	10,425	65,698	0	0	0	76,123
Community Environment	67,182	0	0	0	0	67,182
Basic Utility Services	0	0	0	0	0	0
Transportation	0	84,689	649	0	0	85,338
General Government	91,766	3,389	0	0	177	95,332
Capital Outlay	31,992	47,357	147,378	2,508,490	4,824	2,740,041
Debt Service: Principal	0	0	40,717	0	0	40,717
Interest	0	0	1,398	0	0	1,398
Total Cash Disbursements	<u>446,817</u>	<u>253,662</u>	<u>190,142</u>	<u>2,508,490</u>	<u>12,501</u>	<u>3,411,612</u>
Total Receipts Over/(Under) Disbursements	<u>273,675</u>	<u>(30,462)</u>	<u>(156,521)</u>	<u>(2,508,490)</u>	<u>(3,009)</u>	<u>(2,424,807)</u>
Other Financing Receipts/(Disbursements):						
Transfers-In	0	92,000	0	0	0	92,000
Sale of Notes	0	0	147,378	2,650,433	0	2,797,811
Transfers-Out	(115,834)	0	0	0	0	(115,834)
Total Other Financing Receipts (Disbursements)	<u>(115,834)</u>	<u>92,000</u>	<u>147,378</u>	<u>2,650,433</u>	<u>0</u>	<u>2,773,977</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	157,841	61,538	(9,143)	141,943	(3,009)	349,170
Fund Cash Balances, January 1, 2003	797,100	402,664	56,365	4,759	20,783	1,281,671
Fund Cash Balances, December 31, 2003	<u>\$ 954,941</u>	<u>\$ 464,202</u>	<u>\$ 47,222</u>	<u>\$ 146,702</u>	<u>\$ 17,774</u>	<u>\$ 1,630,841</u>
Reserve for Encumbrances, December 31, 2003	<u>\$ 28,750</u>	<u>\$ 13,440</u>	<u>\$ 0</u>	<u>\$ 25,126</u>	<u>\$ 0</u>	<u>\$ 67,316</u>

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF ARCANUM
DARKE COUNTY**

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

	Proprietary Funds
	Enterprise
Operating Revenues:	
Charges for Services	\$ 2,249,465
Miscellaneous	17,645
Total Cash Receipts	2,267,110
Operating Expenses:	
Current:	
Personal Service	\$ 650,918
Travel Transportation	8,188
Contractual Services	1,362,516
Supplies and Materials	154,253
Capital Outlay	162,729
Total Cash Disbursements	2,338,604
Operating Income/ (Loss)	(71,494)
Non-Operating Revenues/(Disbursements):	
Other Non-Operating Expenses	(8,780)
Debt Service: Principal	(12,017)
Total Non-Operating Revenues Disbursements	(20,797)
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(92,291)
Transfers In	23,834
Net Revenues Over/(Under) Disbursements	(68,457)
Fund Cash Balances, January 1, 2003	1,139,484
Fund Cash Balances, December 31, 2003	\$ 1,071,027
Reserve for Encumbrances, December 31, 2003	\$ 198,589

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF ARCANUM
DARKE COUNTY**

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

	<u>Governmental Fund Types</u>				<u>Fiduciary Funds</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Project</u>	<u>Expendable Trust</u>	
Cash Receipts:						
Local Taxes	\$ 275,298	\$ 9,114	\$ 30,385	\$ 0	\$ 8,049	\$ 322,846
Intergovernmental Revenues	212,673	87,636	3,658	0	1,011	304,978
Charges for Services	1,515	100,207	0	0	0	101,722
Fines, Licenses and Permits	340	0	0	0	0	340
Interest	45,707	12,355	0	0	0	58,062
Miscellaneous	25,045	8,550	0	0	0	33,595
Total Cash Receipts	<u>560,578</u>	<u>217,862</u>	<u>34,043</u>	<u>0</u>	<u>9,060</u>	<u>821,543</u>
Cash Disbursements:						
Current:						
Security of Persons and Property	\$ 207,427	\$ 64,420	\$ 0	\$ 0	\$ 6,473	\$ 278,320
Public Health Services	9,619	0	0	0	0	9,619
Leisure Time Activities	12,221	82,353	0	0	0	94,574
Community Environment	75,510	0	0	0	0	75,510
Basic Utility Services	0	0	0	0	0	0
Transportation	0	76,051	672	0	0	76,723
General Government	125,860	202	0	0	171	126,233
Capital Outlay	36,577	116,541	0	0	0	153,118
Debt Service: Principal	0	4,500	27,300	0	0	31,800
Interest	0	349	2,727	0	0	3,076
Total Cash Disbursements	<u>467,214</u>	<u>344,416</u>	<u>30,699</u>	<u>0</u>	<u>6,644</u>	<u>848,973</u>
Total Receipts Over/(Under) Disbursements	<u>93,364</u>	<u>(126,554)</u>	<u>3,344</u>	<u>0</u>	<u>2,416</u>	<u>(27,430)</u>
Other Financing Receipts/(Disbursements):						
Transfers-In	0	166,000	0	0	0	166,000
Advances-In	0	0	0	0	0	0
Transfers-Out	(216,000)	0	0	0	0	(216,000)
Advances-Out	0	0	0	0	0	0
Total Other Financing Receipts (Disbursements)	<u>(216,000)</u>	<u>166,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(50,000)</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(122,636)	39,446	3,344	0	2,416	(77,430)
Fund Cash Balances, January 1, 2002, restated	919,736	363,218	53,021	4,759	18,367	1,359,101
Fund Cash Balances, December 31, 2002	<u>\$ 797,100</u>	<u>\$ 402,664</u>	<u>\$ 56,365</u>	<u>\$ 4,759</u>	<u>\$ 20,783</u>	<u>\$ 1,281,671</u>
Reserve for Encumbrances, December 31, 2002	\$ 26,845	\$ 11,595	\$ 0	\$ 0	\$ 0	\$ 38,440

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF ARCANUM
DARKE COUNTY**

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

	Proprietary Funds
	Enterprise
Operating Revenues:	
Charges for Services	\$ 2,123,180
Miscellaneous	7,865
	2,131,045
Total Cash Receipts	2,131,045
Operating Expenses:	
Current:	
Personal Service	\$ 611,507
Travel Transportation	7,862
Contractual Services	1,442,551
Supplies and Materials	233,382
Capital Outlay	110,639
	2,405,941
Total Cash Disbursements	2,405,941
Operating Income/ (Loss)	(274,896)
Non-Operating Revenues/(Expenses):	
Other Non-Operating Cash Disbursements	(12,667)
Debt Service: Principal	(24,035)
Interest	0
	(36,702)
Total Non-Operating Revenues (Expenses)	(36,702)
Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances	(311,598)
Transfers In	50,000
	(261,598)
Net Revenues Over/(Under) Disbursements	(261,598)
Fund Cash Balances, January 1, 2002	1,401,082
Fund Cash Balances, December 31, 2002	\$ 1,139,484
Reserve for encumbrances, December 31, 2002	\$ 236,000

The Notes to the Financial Statements are an integral part of this statement.

**VILLAGE OF ARCANUM
DARKE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Arcanum, Darke County, (the Village) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a publicly elected six-member Council. The Village provides general governmental services, including water and sewer utilities, refuse services, park operations (leisure time activities), police and fire services.

The Village'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 a payment is made rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

C. Cash and Investments

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

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

D. Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use.

The Village classifies its funds into the following types:

1. General Fund

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

2. Special Revenue Funds

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

**VILLAGE OF ARCANUM
DARKE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

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

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

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

3. Debt Service Funds

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

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

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

4. Capital Project Funds

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

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

5. 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 water services to residents.

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

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

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

**VILLAGE OF ARCANUM
DARKE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds are used to account for resources restricted by legally binding trust agreements. The Village classifies these as Expendable Trust Funds. The Village had the following significant expendable trust funds.

Police Disability and Pension Fund – This fund receives the proceeds of a property tax levy for meeting the pension payments for prior Village Police Office service.

Unclaimed Funds – This expendable trust fund receives amounts from stale outstanding checks.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

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

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.

**VILLAGE OF ARCANUM
DARKE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Unpaid Vacation and Sick Leave

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

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments 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:

	<u>2003</u>	<u>2002</u>
Demand Deposits	\$ 958,817	\$ 684,077
Certificates of Deposit	<u>1,200,000</u>	<u>1,200,000</u>
Total Deposits	<u>2,158,817</u>	<u>1,884,077</u>
STAR Ohio	<u>543,051</u>	<u>537,078</u>
Total Deposits and Investments	<u>\$2,701,868</u>	<u>\$2,421,155</u>

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

Investments: Investments in STAR Ohio and mutual funds are not evidenced by securities that exist in physical or book-entry form.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended December 31, 2003 follows:

2003 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted</u> <u>Receipts</u>	<u>Actual</u> <u>Receipts</u>	<u>Variance</u>
General	\$ 548,900	\$ 720,492	\$ 171,592
Special Revenue	294,177	315,200	21,023
Debt Service	32,000	180,999	148,999
Capital Projects	2,100,000	2,650,433	550,433
Enterprise	2,040,500	2,290,944	250,444
Fiduciary	<u>7,700</u>	<u>9,492</u>	<u>1,792</u>
Total	<u>\$5,023,277</u>	<u>\$6,167,560</u>	<u>\$1,144,283</u>

**VILLAGE OF ARCANUM
DARKE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

2. BUDGETARY ACTIVITY (Continued)

2003 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 639,428	\$ 591,401	\$ 48,027
Special Revenue	329,282	267,102	62,180
Debt Service	42,816	190,142	(147,326)
Capital Projects	2,540,000	2,533,616	6,384
Enterprise	2,688,863	2,557,990	130,873
Fiduciary	<u>12,524</u>	<u>12,501</u>	<u>23</u>
Total	<u>\$6,252,913</u>	<u>\$6,152,752</u>	<u>\$ 100,161</u>

2002 Budgeted vs. Actual Receipts

<u>Fund Type</u>	<u>Budgeted Receipts</u>	<u>Actual Receipts</u>	<u>Variance</u>
General	\$ 530,330	\$ 560,578	\$ 30,248
Special Revenue	366,150	383,862	17,712
Debt Service	31,700	34,043	2,343
Capital Projects	0	0	0
Enterprise	2,137,000	2,181,045	44,045
Fiduciary	<u>7,150</u>	<u>9,060</u>	<u>1,910</u>
Total	<u>\$3,072,330</u>	<u>\$3,168,588</u>	<u>\$ 96,258</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

<u>Fund Type</u>	<u>Appropriation Authority</u>	<u>Budgetary Expenditures</u>	<u>Variance</u>
General	\$ 777,794	\$ 710,059	\$ 67,735
Special Revenue	385,290	356,011	29,279
Debt Service	30,730	30,699	31
Capital Projects	4,759	0	4,759
Enterprise	2,760,812	2,678,643	82,169
Fiduciary	<u>10,700</u>	<u>6,644</u>	<u>4,056</u>
Total	<u>\$3,970,085</u>	<u>\$3,782,056</u>	<u>\$ 188,029</u>

**VILLAGE OF ARCANUM
DARKE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

4. PROPERTY TAX

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

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

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

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

5. DEBT

Debt outstanding at December 31, 2003 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Public Works Commission	\$ 226,114	0%
Ohio Public Works Commission – Phase II	575,000	0%
Ohio Water Development Authority	2,075,433	1.5%
Fire Equipment Acquisition	147,378	3.76%
Ohio Public Works Commission	41,250	0%
Total	<u>\$3,065,175</u>	

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

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

The Ohio Public Works Commission (OPWC) loan relates to the sanitary sewer phase II. The OPWC has approved two interest free loans in the amounts of \$300,000 and \$275,00, for this project. The loans will be repaid in annual installments of \$7,500 and \$13,750 over 20 years. The loan is collateralized by water and sewer receipts.

The Ohio Water Development Authority (OWDA) loan relates to the sanitary sewer, phase II. The Village was approved for a loan in the amount of \$3,000,000. The Village has drawn \$2,075,433 at December 31, 2003, with the remainder drawn in 2004. The loan is to be repaid in annual installments of \$124,550, including principal and interest at 1.5%, over 30 years. The loan is collateralized by water and sewer receipts.

The Village has been approved fro an additional \$2,000,000 loan with the OWDA. No funds were disbursed on this loan in year 2003.

**VILLAGE OF ARCANUM
DARKE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

5. DEBT (Continued)

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

<u>Year ending December 31:</u>	<u>OPWC Loans</u>	<u>OWDA Bonds</u>	<u>Fire Equipment Bonds</u>
2004	\$ 34,517	\$ 124,550	\$ 32,585
2005	45,285	124,550	32,585
2006	45,285	124,550	32,585
2007	45,285	124,550	32,585
2008	45,285	124,550	32,585
2009-13	226,425	622,750	0
Thereafter	<u>400,282</u>	<u>2,492,582</u>	<u>0</u>
Total	<u>\$842,364</u>	<u>\$ 3,738,082</u>	<u>\$ 162,925</u>

6. RETIREMENT SYSTEMS

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

Contribution rates are also prescribed by the Ohio Revised Code. For 2003 and 2002, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant and 24 percent of fire participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries for 2003. The Village has paid all contributions required through December 31, 2003.

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- General Liability
- Public Officials Liability
- Vehicle
- Law Enforcement
- Property

**VILLAGE OF ARCANUM
DARKE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

8. FUND BALANCES, RESTATED

At January 1, 2002, the following funds and balances were transferred:

	<u>To/(From)</u>
Special Revenue:	
Garbage & Refuse	(25,326)
Comm. Env. Garbage & Refuse	(4,759)
Capital Projects:	
Comm. Env. Garbage & Refuse	4,759
Ruby Miltonberger	(9,123)
Expendable Trust Funds:	
Ruby Miltonberger	9,123
Garbage Deposit Fund	(14,310)
Enterprise Funds:	
Garbage & Refuse	25,326
Garbage Deposit Fund	14,310

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Vanderhorst & Manning CPAs, LLC
6105 North Dixie Drive
Dayton, Ohio 45414

**REPORT OF INDEPENDENT ACCOUNTANTS' ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

Members of Council
Village of Arcanum
202 North Main Street
Arcanum, Ohio 45303

We have audited the financial statements of the Village of Arcanum, Darke County (the Village), as of and for the years ended December 31, 2003, and 2002, and have issued our report thereon dated June 29, 2004. We conducted our audits 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 performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 that are required to be reported under Government Auditing Standards which are described in the accompanying Schedule of Findings as items 2003-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order 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. 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 specific 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 operations 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 management of the Village in a separate letter dated June 29, 2004.

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

Vanderhorst & Manning CPAs, LLC
Dayton, Ohio

June 29, 2004

**VILLAGE OF ARCANUM
DARKE COUNTY**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

SCHEDULE OF FINDINGS

1. FINDING RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number - 2003-001

Ohio Revised Code Section 5705.39 requires that a subdivision's total appropriations from each fund should not exceed the total estimated resources.

It was noted during the audit that the total appropriations exceeded the total estimated resources in the following funds:

	<u>2003</u>	Excess <u>2002</u>
Special Revenue:		
Law Enforcement Fund	\$ 2,895	\$ 850
Capital Projects:		
Separation Phase II	\$ 440,000	\$ 0
Enterprise Funds:		
Sewer	\$ 23,309	\$ 0
Garbage & Refuse	\$ 0	\$ 414

With appropriations exceeding estimated resources the Village may spend more funds than in the Treasury or process of collection and cause fund deficits.

We recommend that the Village comply with the Ohio Revised Code and Auditor of State Bulletin 97-010 by keeping more accurate appropriations versus estimated resources records and amending the budget prior to year end. If it is determined that estimated resources will be greater than initially anticipated, the Village should amend its official estimate in order to provide for any additional appropriations; however, appropriations should not exceed estimated resources. In addition, the Village should monitor its budgetary process on a regular basis.



**Auditor of State
Betty Montgomery**

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VILLAGE OF ARCANUM

DARKE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 19, 2004**