



**Auditor of State
Betty Montgomery**

VILLAGE OF ARLINGTON
HANCOCK COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Village of Arlington
Hancock County
204 N. Main Street, P.O. Box 699
Arlington, OH 45814-0699

To the Village Council:

We have audited the accompanying financial statements of the Village of Arlington, Hancock County, (the Village) as of and for the years ended December 31, 2002 and 2001. 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 audits.

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 audits 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 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 and reserves for encumbrances of the Village of Arlington, Hancock County, as of December 31, 2002 and 2001, 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 May 15, 2003, 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 audits.

Village of Arlington
Hancock County
Independent Accountants' Report
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This report is intended solely for the information and use of the audit 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

May 15, 2003

**VILLAGE OF ARLINGTON
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>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$56,037			\$13,791	\$69,828
State Shared Taxes and Permits	131,937				131,937
Special Assessments		\$49,363			49,363
Intergovernmental Receipts	70,028	56,802		204,951	331,781
Charges for Services	200	21,346			21,546
Fines, Licenses, and Permits	766				766
Earnings on Investments	19,207	4,000			23,207
Miscellaneous		3,247			3,247
Total Cash Receipts	278,175	134,758		218,742	631,675
Cash Disbursements:					
Current:					
Security of Persons and Property	19,430	60,315			79,745
Public Health Services	5,238				5,238
Transportation	4,376	48,774			53,150
General Government	168,972	43		255	169,270
Debt Service:					
Principal Payments			\$35,000	13,669	48,669
Interest Payments			26,436	1,920	28,356
Capital Outlay	36,959	20,483		202,348	259,790
Total Cash Disbursements	234,975	129,615	61,436	218,192	644,218
Total Receipts Over/(Under) Disbursements	43,200	5,143	(61,436)	550	(12,543)
Other Financing Receipts and (Disbursements):					
Transfers-In		53,000	63,000		116,000
Advances-In	31,000			31,000	62,000
Transfers-Out	(147,000)				(147,000)
Advances-Out	(31,000)			(31,000)	(62,000)
Other Financing Sources	2,065				2,065
Other Financing Uses	(7,693)				(7,693)
Total Other Financing Receipts/(Disbursements)	(152,628)	53,000	63,000		(36,628)
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(109,428)	58,143	1,564	550	(49,171)
Fund Cash Balances, January 1	270,826	77,262	3,755	11,789	363,632
Fund Cash Balances, December 31	\$161,398	\$135,405	\$5,319	\$12,339	\$314,461
Reserves for Encumbrances, December 31	\$1,618	\$1,078			\$2,696

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

**VILLAGE OF ARLINGTON
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**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$365,403
Miscellaneous	88
	365,491
Operating Cash Disbursements:	
Personal Services	72,516
Fringe Benefits	5,199
Contractual Services	46,616
Supplies and Materials	117,036
Other	235
Capital Outlay	45,375
	286,977
Operating Income	78,514
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	794
Non-Operating Cash Disbursements:	
Debt Service	124,937
Excess of Receipts (Under) Disbursements Before Interfund Transfers	(45,629)
Transfers-In	31,000
Net Disbursements Over Receipts	(14,629)
Fund Cash Balances, January 1	461,915
Fund Cash Balances, December 31	\$447,286
Reserve for Encumbrances, December 31	\$13,136

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

**VILLAGE OF ARLINGTON
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, 2001**

	<u>Governmental Fund Types</u>				Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
Cash Receipts:					
Property Tax and Other Local Taxes	\$50,988			\$13,764	\$64,752
State Shared Taxes and Permits	134,986				134,986
Special Assessments		\$43,209			43,209
Intergovernmental Receipts	73,356	47,004		1,867	122,227
Charges for Services		21,346			21,346
Fines, Licenses, and Permits	2,628				2,628
Earnings on Investments	46,711	4,000			50,711
Miscellaneous		13,283			13,283
	<u>308,669</u>	<u>128,842</u>		<u>15,631</u>	<u>453,142</u>
Cash Disbursements:					
Current:					
Security of Persons and Property	20,634	82,826			103,460
Public Health Services	4,987				4,987
Transportation	5,821	49,344			55,165
General Government	95,292	24		251	95,567
Debt Service:					
Principal Payments			\$35,000	6,526	41,526
Interest Payments			28,405	1,269	29,674
Financing and Other Debt-Service Related	550				550
Capital Outlay	81,892	44,879			126,771
	<u>209,176</u>	<u>177,073</u>	<u>63,405</u>	<u>8,046</u>	<u>457,700</u>
Total Cash Disbursements					
Total Receipts Over/(Under) Disbursements	<u>99,493</u>	<u>(48,231)</u>	<u>(63,405)</u>	<u>7,585</u>	<u>(4,558)</u>
Other Financing Receipts and (Disbursements):					
Sale of Bonds or Notes	42,250				42,250
Transfers-In		15,000	63,000		78,000
Transfers-Out	(113,000)				(113,000)
Other Financing Sources	9,308				9,308
Other Financing Uses	(4,586)				(4,586)
	<u>(66,028)</u>	<u>15,000</u>	<u>63,000</u>		<u>11,972</u>
Total Other Financing Receipts/(Disbursements)					
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	33,465	(33,231)	(405)	7,585	7,414
Fund Cash Balances, January 1	<u>237,361</u>	<u>110,493</u>	<u>4,160</u>	<u>4,204</u>	<u>356,218</u>
Fund Cash Balances, December 31	<u>\$270,826</u>	<u>\$77,262</u>	<u>\$3,755</u>	<u>\$11,789</u>	<u>\$363,632</u>
Reserves for Encumbrances, December 31	<u>\$55,834</u>	<u>\$2,245</u>			<u>\$58,079</u>

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

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - PROPRIETARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001**

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts:	
Charges for Services	\$347,368
Miscellaneous	34
	347,402
Total Operating Cash Receipts	347,402
Operating Cash Disbursements:	
Personal Services	92,976
Fringe Benefits	8,578
Contractual Services	57,260
Supplies and Materials	80,077
Miscellaneous	486
Capital Outlay	85,566
	324,943
Total Operating Cash Disbursements	324,943
Operating Income	22,459
Non-Operating Cash Receipts:	
Intergovernmental Receipts	26,090
Other Non-Operating Receipts	1,693
	27,783
Total Non-Operating Cash Receipts	27,783
Non-Operating Cash Disbursements:	
Debt Service	133,069
Excess of Receipts (Under) Disbursements Before Interfund Transfers	(82,827)
Transfers-In	35,000
Net Receipts (Under) Disbursements	(47,827)
Fund Cash Balances, January 1	509,742
Fund Cash Balances, December 31	\$461,915
Reserve for Encumbrances, December 31	\$4,356

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

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Village of Arlington, 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 water and sewer utilities and park operations. The Village contracts with the Hancock County Sheriff's department to provide security of persons and property. The Village appropriates general fund money to support a volunteer fire department.

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

Certificates of deposit are valued at cost.

D. Fund Accounting

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

1. General Fund

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

2. Special Revenue 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.

Street Repair Assessment Fund - This fund receives special assessments for providing street repairs within the Village.

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

Fire Fund -This fund receives revenues from various subdivisions to provide fire protection.

3. Debt Service Fund

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

Town Hall/Swimming Pool Bond Retirement Fund -This fund is used to account for the accumulation of resources for, and the payment of, general long-term obligation principal interest, and related costs associated with the debt for construction of the Village's administration building and swimming pool.

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 funds:

Water Plant Construction Fund - This fund received a loan from OWDA. The proceeds were used to construct new water plant.

Wardwell Storm Sewer Fund - This fund received a grant from OPWC. The proceeds were used to construct the Wardwell storm sewer.

Park Renovation Fund - This fund received a grant from Ohio Department of Natural Resources and Hancock County's Parks and Recreation. The proceeds were used to construct the Greater Arlington Sports Complex.

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 this utility.

Sewer 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.

1. Appropriations

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

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

amendments. The County Budget Commission must also approve the annual appropriation measure. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

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

A summary of 2002 and 2001 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 cash used by all funds. The Ohio Revised Code prescribes allowable deposits. The carrying amount of cash at December 31 was as follows:

	<u>2002</u>	<u>2001</u>
Demand deposits	\$50,119	\$60,821
Certificates of deposit	711,628	764,726
Total deposits	<u>\$761,747</u>	<u>\$825,547</u>

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

Contrary to Ohio law, the Village maintained certificate of deposits with a maturity of longer than one year.

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2002 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$322,441	\$280,240	(\$42,201)
Special Revenue	156,400	187,758	31,358
Debt Service	63,000	63,000	
Capital Projects	243,684	218,742	(24,942)
Enterprise	382,500	397,285	14,785
Total	<u>\$1,168,025</u>	<u>\$1,147,025</u>	<u>(\$21,000)</u>

2002 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$598,744	\$244,203	\$354,541
Special Revenue	233,360	130,693	102,667
Debt Service	66,754	61,436	5,318
Capital Projects	255,563	218,193	37,370
Enterprise	844,411	425,050	419,361
Total	<u>\$1,998,832</u>	<u>\$1,079,575</u>	<u>\$919,257</u>

2001 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$238,522	\$360,227	\$121,705
Special Revenue	130,000	143,842	13,842
Debt Service	63,000	63,000	
Capital Projects	37,806	15,631	(22,175)
Enterprise	383,950	410,185	26,235
Total	<u>\$853,278</u>	<u>\$992,885</u>	<u>\$139,607</u>

2001 Budgeted vs. Actual Budgetary Basis Expenditures

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$475,883	\$378,010	\$97,873
Special Revenue	240,490	179,318	61,172
Debt Service	67,159	63,405	3,754
Capital Projects	42,010	8,046	33,964
Enterprise	893,690	462,368	431,322
Total	<u>\$1,719,232</u>	<u>\$1,091,147</u>	<u>\$628,085</u>

Contrary to Ohio law, some transactions were not certified by the fiscal officer at the time the commitment was incurred.

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

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 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. LOCAL INCOME TAX

The Village levies a municipal income tax of one percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

6. DEBT

Debt outstanding at December 31, 2002, was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Sewer System Mortgage Bonds	\$279,000	5.00%
Ohio Public Works Commission South Main Street Waterline Loan	34,248	0.00%
Ohio Water Development Authority Waterline Loan	81,562	6.56%
Town Hall/Swimming Pool General Obligation Bonds	440,000	5.35-5.75%
Ohio Public Works Commission East Alley Waterline Loan	112,023	0.00%
Ohio Water Development Authority Water Plant Construction Loan	1,429,159	2.00%
Fire Truck Promissory Note	22,054	5.88%
Total	<u><u>\$2,398,046</u></u>	

Proceeds from the Sewer System Mortgage Bonds were used to finance sewer improvements and pay off notes that were of the bond anticipation type. Property and revenues of the utility system have been pledged for the repayment of this debt.

The loan from the Ohio Public Works Commission for the South Main Street Waterline Project was used to finance waterline replacements. The interest-free loan will be paid back with the regular monthly water charges which are received from residents of the Village.

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

The Ohio Water Development Authority (OWDA) loan relates to the Waterline Project. The loan is being repaid in semiannual installments, including interest, over 15 years. The loan is being paid back with the regular monthly water charges which are received from residents of the Village.

The Town Hall/Swimming Pool General Obligation Bonds were issued for the purpose of constructing a new municipal complex and a new swimming pool within the Village. The bonds were issued in 1997 in the amount of \$600,000 to be repaid over 15 years with interest paid semiannually.

The Ohio Public Works Commission (OPWC) loan relates to an East Alley Waterline Replacement Project. The OPWC loaned the Village \$131,791 for this project. The loan will be repaid in semiannual installments of \$3,294.78, with no interest, over 20 years.

The Ohio Water Development Authority (OWDA) loan relates to water plant construction. The OWDA has approved up to \$1,616,550 in loans to the Village for this project. The loans will be repaid in semiannual installments of \$25,123.41, including interest, over 25 years. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

The Fire Truck Promissory Note was issued to purchase a new fire truck. The loan is for \$42,250 and will be paid off in 2004.

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

Year ending December 31:	Sewer System Mortgage Bonds	OPWC South Main Street Waterline Loan	OWDA Waterline Loan	Swimming Pool General Obligation Bonds	OPWC East Alley Waterline Loan	OWDA Water Plant Construction Loan	Fire Truck Promissory Note
2003	\$26,950	\$3,425	\$14,126	\$59,468	\$6,590	\$79,190	\$15,590
2004	27,300	3,425	14,126	57,499	6,590	79,190	7,789
2005	26,600	3,425	14,126	60,530	6,590	79,190	
2006	26,900	3,425	14,126	58,280	6,590	79,190	
2007	27,150	3,425	12,541	61,030	6,590	79,190	
2008-2012	133,250	17,124	35,316	287,750	32,948	395,949	
2013-2017	135,200				32,948	395,949	
2018-2022					13,179	395,949	
2023-2025						197,975	
Total	<u>\$403,350</u>	<u>\$34,249</u>	<u>\$104,361</u>	<u>\$584,557</u>	<u>\$112,025</u>	<u>\$1,781,772</u>	<u>\$23,379</u>

7. RETIREMENT SYSTEMS

The Village's full-time employees and elected officials belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a 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 2002 and 2001, OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2002.

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

All council members, one board of public affairs member, the fire chief, and the mayor have elected Social Security. Social Security members contributed 6.2 percent of their gross salaries. The Village contributed an amount equal to 6.2 percent of participants' gross salaries for 2001 and 2002. The Village has paid all contributions required through December 31, 2002.

8. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Property and general liability.
- Vehicles.
- Inland marine.
- Crime.
- Law enforcement liability.
- Errors and omissions and employment practices liability.

The Village reimburses full-time employees for their health insurance.

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**Auditor of State
Betty Montgomery**

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

Village of Arlington
Hancock County
204 N. Main Street, P.O. Box 699
Arlington, OH 45814-0699

To the Village Council:

We have audited the accompanying financial statements of the Village of Arlington, Hancock County, (the Village) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated May 15, 2003. 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 audits 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 2002-001 and 2002-002.

Internal Control over Financial Reporting

In planning and performing our audits, 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 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 one matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Village in a separate letter dated May 15, 2003.

Village of Arlington
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Control Required by *Government Auditing Standards*
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This report is intended solely for the information and use of the audit 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

May 15, 2003

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citations

Ohio Revised Code § 5705.41(D) states no orders or contracts involving the expenditure of money are to be made unless there is attached thereto a certificate of the fiscal officer certifying that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirement:

- a. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- b. If the amount involved is less than \$3,000 the fiscal officer may authorize it to be paid without the affirmation of Council, if such expenditure is otherwise valid.

Thirty percent of transactions tested were not certified by the fiscal officer at the time the commitment was incurred and neither of the exceptions provided for were used. Certificates used for encumbering Village expenses should indicate if it is a purchase order or a blanket certificate. During our disbursement testing, no evidence was presented on the certificate if it was a purchase order or blanket certificate. Also, thirty seven percent of the transactions tested had "Then and Now" certificates attached. "Then and Now" certificates should be issued as the exception and not the rule for encumbering Village expenses. To improve controls over disbursements, we recommend that all Council disbursements receive certification of the fiscal officer that the funds are or will be available. We also recommend "Then and Now" certificates be issued as the exception and not the rule and certificates indicate if it is a purchase order or a blanket certificate.

FINDING NUMBER 2002-002

Ohio Revised Code §135.13 states that interim deposits shall be evidenced by certificates of deposit maturing not more than one year from the date of deposit or savings or deposit accounts, including passbook accounts. ORC §§ 135.14(B)(3), 135.08, and 135.09 require interim deposits to be awarded to eligible institutions who properly apply with the legislative authority. ORC § 135.03 specifies which financial institutions are eligible to become public depositories.

The Village has fourteen "brokered" certificates of deposit with a brokerage firm (AG Edwards) deposited in various banks throughout the country. All but one of these deposits will mature more than one year from the date of deposit.

We recommend that the Village award interim deposits only to an eligible institution(s) which properly applies with the Village to become a public depository, and that the Village ensures that their certificates of deposit for interim deposits mature no more than twelve months after their issue date.

**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30232-001	ORC § 5705.41(D) Failure to certify expenditures	No	Not corrected. Repeated as finding #2002-001
2000-30232-002	ORC § 5705.41(B) Expenditures exceeded appropriations	Yes	Finding no longer valid.



**Auditor of State
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VILLAGE OF ARLINGTON

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
JUNE 17, 2003**