



OHIO AUDITOR OF STATE
KEITH FABER



VILLAGE OF ARCANUM
DARKE COUNTY
DECEMBER 31, 2018

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OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT

Village of Arcanum
Darke County
P.O. Box 398
Arcanum, Ohio 45304

To the Village Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Village of Arcanum, Darke County, Ohio (the Village) as of and for the year ended December 31, 2018.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

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

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

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

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2018, and the respective changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances, receipts and disbursements by fund type, and related notes of the Village of Arcanum, Darke County, as of December 31, 2018, for the year then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 2.

Other Matters

Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the financial statements. We subjected this schedule to the auditing procedures we applied to the financial statements. We also applied certain additional procedures, including comparing and reconciling the schedule directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2019, on our consideration of the Village's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Village's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

May 22, 2019

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Village of Arcanum, Ohio
Darke County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2018

	General	Special Revenue	Capital Projects	Totals (Memorandum Only)
Cash Receipts				
Property and Other Local Taxes	\$132,914	\$68,904	\$0	\$201,818
Municipal Income Tax	622,989	0	0	622,989
Intergovernmental	77,502	138,694	0	216,196
Special Assessments	1,209	27	2,885	4,121
Charges for Services	42,142	85,360	0	127,502
Fines, Licenses and Permits	18,808	0	0	18,808
Earnings on Investments	9,110	3,904	129	13,143
Miscellaneous	23,816	4,930	0	28,746
<i>Total Cash Receipts</i>	<u>928,490</u>	<u>301,819</u>	<u>3,014</u>	<u>1,233,323</u>
Cash Disbursements				
Current:				
Security of Persons and Property	308,181	68,158	0	376,339
Public Health Services	10,090	0	0	10,090
Leisure Time Activities	2,308	37,184	0	39,492
Community Environment	127,484	0	0	127,484
Transportation	0	87,410	0	87,410
General Government	201,494	0	0	201,494
Capital Outlay	61,428	98,553	9,381	169,362
Debt Service:				
Principal Retirement	19,102	32,588	20,333	72,023
Interest and Fiscal Charges	1,789	9,306	0	11,095
<i>Total Cash Disbursements</i>	<u>731,876</u>	<u>333,199</u>	<u>29,714</u>	<u>1,094,789</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>196,614</u>	<u>(31,380)</u>	<u>(26,700)</u>	<u>138,534</u>
Other Financing Receipts (Disbursements)				
Sale of Capital Assets	0	35,000	0	35,000
Transfers In	0	31,756	0	31,756
Transfers Out	(51,756)	0	0	(51,756)
Advances In	8,000	0	0	8,000
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(43,756)</u>	<u>66,756</u>	<u>0</u>	<u>23,000</u>
<i>Net Change in Fund Cash Balances</i>	152,858	35,376	(26,700)	161,534
<i>Fund Cash Balances, January 1</i>	<u>1,229,700</u>	<u>578,189</u>	<u>81,933</u>	<u>1,889,822</u>
Fund Cash Balances, December 31				
Nonspendable	1,381	0	0	1,381
Restricted	0	613,565	55,233	668,798
Assigned	23,172	0	0	23,172
Unassigned	1,358,005	0	0	1,358,005
<i>Fund Cash Balances, December 31</i>	<u>\$1,382,558</u>	<u>\$613,565</u>	<u>\$55,233</u>	<u>\$2,051,356</u>

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

Village of Arcanum, Ohio
Darke County
**Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Cash Basis)**
All Proprietary Fund Types
For the Year Ended December 31, 2018

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$4,289,265
Miscellaneous	9,075
<i>Total Operating Cash Receipts</i>	4,298,340
Operating Cash Disbursements	
Personal Services	630,539
Contractual Services	2,277,004
Supplies and Materials	231,882
<i>Total Operating Cash Disbursements</i>	3,139,425
<i>Operating Cash Receipts Over (Under) Operating Cash Disbursements</i>	1,158,915
Non-Operating Cash Receipts (Disbursements)	
Special Assessments	717
Proceeds from USDA Loan	2,142,782
Proceeds from OWDA Loan	58,880
Miscellaneous Receipts	2,530
Capital Outlay	(4,768,093)
Principal Retirement	(382,773)
Interest and Other Fiscal Charges	(114,842)
OWDA Interest Subsidy	9,530
Miscellaneous Disbursements	(8,696)
<i>Total Non-Operating Cash Receipts (Disbursements)</i>	(3,059,965)
<i>Cash Receipts Over (Under) Cash Disbursements Before Capital Contributions, Transfers and Advances</i>	(1,901,050)
Capital Contributions - Grants	2,254,758
Transfers In	20,000
Advances Out	(8,000)
<i>Total Capital Contributions, Transfers and Advances</i>	2,266,758
<i>Net Change in Fund Cash Balances</i>	365,708
<i>Fund Cash Balances, January 1</i>	4,224,835
<i>Fund Cash Balances, December 31</i>	\$4,590,543

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

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 1. DESCRIPTION OF THE ENTITY

The Village of Arcanum, Darke County, Ohio, (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, refuse services, park operations (leisure time activities), and police and fire services.

The Village participates in joint ventures. Note 11 to the financial statements provides additional information for these entities.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Fund Accounting

The Village uses fund accounting to segregate cash and investments that are restricted as to use. A fund is defined as a fiscal and accounting entity with self-balancing set of accounts. The funds of the Village are presented below:

General Fund

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

Special Revenue Funds

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

Street Fund

This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining and repairing Village streets.

Fire Fund

This fund receives the proceeds of contractual services for providing fire protection to local governments.

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Project Funds

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The Village had the following significant capital project funds:

South Main Street Reconstruction Fund

This fund is used to account for all financial resources and expenses associated with the resurfacing of South Main Street in the Village.

Harvest Fields LLC Escrow Fund

This fund is used to account for all financial resources and expenses associated with the cost of construction of sidewalks within a subdivision in the Village.

Enterprise Funds

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

Water Fund

This fund is used to account for receipts received from user charges for water services provided to residents of the Village. The costs of providing services are financed through user charges.

Sewer Fund

This fund is used to account for receipts received from user charges for sewer services provided to residents of the Village. The costs of providing services are financed through user charges.

Electric Fund

This fund is used to account for receipts received from user charges for electric services provided to residents of the Village. The costs of providing services are financed through user charges.

Basis of Accounting

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03 (D). This basis is similar to the cash receipts and disbursements accounting basis. The Board recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

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

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Process

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

Appropriations

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

Estimated Resources

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

Encumbrances

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

A summary of 2018 budgetary activity appears in Note 3.

Deposits and Investments

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

Investment in STAR Ohio is measured at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Capital Assets

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

Accumulated Leave

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

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

Unassigned

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

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

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2018 follows:

2018 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$837,718	\$936,490	\$98,772
Special Revenue	343,545	368,575	25,030
Capital Projects	100	3,014	2,914
Enterprise	11,059,624	8,787,537	(2,272,087)
Total	\$12,240,987	\$10,095,616	(\$2,145,371)

2018 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$850,033	\$783,632	\$66,401
Special Revenue	772,641	333,199	439,442
Capital Projects	35,834	29,714	6,120
Enterprise	11,150,974	8,421,829	2,729,145
Total	\$12,809,482	\$9,568,374	\$3,241,108

NOTE 4. DEPOSITS AND INVESTMENTS

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

	2018
Demand deposits	\$3,627,761
Certificates of deposit	2,760,000
Cash on Hand	432
Total deposits	6,388,193
STAR Ohio	253,706
Total investments	253,706
Total deposits and investments	\$6,641,899

Deposits: Deposits are insured by the Federal Depository Insurance Corporation, collateralized by securities specifically pledged by the financial institution to the Village, or collateralized through the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of public monies deposited in the financial institution.

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

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 5. TAXES

Property Taxes

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

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

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

Income Taxes

The Village levies a municipal income tax of 1 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.

NOTE 6. DEBT

Debt outstanding at December 31, 2018 was as follows:

	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018
Governmental Funds				
Lease Purchase-Factory Building	\$ 31,359	\$ -	\$ 10,036	\$ 21,323
OPWC CK38M W. George Street	156,250	-	12,500	143,750
Police Cruiser	18,131	-	9,066	9,065
OPWC S. Main Street CT20Q	559,167	-	20,333	538,834
Fire Truck	221,989	-	20,088	201,901
Total Governmental Funds	<u>986,896</u>	<u>-</u>	<u>72,023</u>	<u>914,873</u>
Enterprise Funds				
OWDA Loan 3770	1,774,691	-	98,923	1,675,768
OWDA Loan 3771	756,509	-	32,242	724,267
OWDA Loan 4565	100,088	-	10,256	89,832
OWDA Loan 5007	1,996,071	-	77,207	1,918,864
OWDA Loan 8237	-	58,880	2,945	55,935
OPWC Phase II CK06F	90,000	-	15,000	75,000
OPWC CK30C NW Storm	6,250	-	2,500	3,750
OPWC Phase III CK02L	560,000	-	40,000	520,000
Artesian of Pioneer/Water Media	30,000	-	30,000	-
USDA Loan	1,289,322	2,142,782	73,700	3,358,404
Total Enterprise Funds	<u>6,602,931</u>	<u>2,201,662</u>	<u>382,773</u>	<u>8,421,820</u>
Total Debt	<u>\$ 7,589,827</u>	<u>\$ 2,201,662</u>	<u>\$ 454,796</u>	<u>\$ 9,336,693</u>

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 6. DEBT (Continued)

The lease purchase agreement relates to the purchase of a factory building that is to be used for the Village's street department. The original amount of the lease purchase agreement was \$169,820. The lease to purchase is being paid in annual installments of \$11,321, including principal and interest at 4.1%, over 15 years with the final payment March 4, 2020. The lease purchase agreement is being paid from the General Fund.

The Ohio Public Works Commission (OPWC) Loan No CK38M relates to the West George Street Project. The OPWC has approved an interest free loan in the amount of \$250,000 for this project. The loan is being repaid in annual installments of \$12,500 over 20 years with final payment July 1, 2030. The loan is being repaid from the Permissive Tax Fund.

The Ohio Water Development Authority (OWDA) loan 3770 relates to the sanitary sewer phase II. The Village was approved for a loan in the amount of \$3,000,000 for this project. The loan is being repaid in annual installments of \$125,174, including principal and interest at 1.5%, over 30 years with final payment January 1, 2034. The loan is collateralized by water and sewer receipts and is being repaid from the Sewer Fund.

The Ohio Water Development Authority (OWDA) loan 3771 relates to the sanitary sewer phase II. The Village was approved for a loan in the amount of \$2,000,000. In May 2009, it was determined that the full amount would not need to be drawn on the loan. The loan is being repaid at 4.84% with the final payment scheduled on January 1, 2034. The loan is collateralized by water and sewer receipts and is being repaid from the Sewer Fund.

The Ohio Water Development Authority (OWDA) loan 4565 relates to the water plant upgrade. The Village was approved for a loan in the amount of \$200,000 for this project. The loan is being repaid in annual installments of \$12,208, including principal and interest at 2%, over 20 years. The loan is collateralized by water and sewer receipts. OWDA loan 4565 is being repaid from the Water Fund.

The Ohio Water Development Authority (OWDA) loan 5007 relates to the sanitary sewer phase III. The Village was approved for a loan in the amount of \$3,000,000 for this project. This loan is being repaid in annual installments of \$106,860, including principal and interest at 1.5%, over 30 years. OWDA loan 5007 is being repaid from the Sewer Fund.

The Ohio Water Development Authority (OWDA) loan 8237 relates to the Albright Road water extension. The Village was approved for a loan in the amount of \$66,945 for this project. OWDA loan 8237 is being repaid from the Water Fund. The project is not completed at this time, and therefore no amortization schedule has been set.

The Ohio Public Works Commission (OPWC) Loan CK06F relates to the sanitary sewer phase II. The OPWC has approved an interest free loan in the amount of \$300,000 for this project. The loan is being repaid in annual installments of \$15,000 over 20 years with final payment July 1, 2023. The loan is collateralized by water and sewer receipts and is being repaid from the Sewer Fund.

The Ohio Public Works Commission (OPWC) Loan CK30C 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 is being repaid in annual installments of \$2,500 over 20 years with final payment July 1, 2020. The loan is collateralized by water and sewer receipts and is being repaid from the Sewer Fund.

The Ohio Public Works Commission (OPWC) Loan No. CK02L relates to the sanitary sewer phase III. The OPWC has approved a \$500,000 grant with an interest free loan in the amount of \$800,000 for this project. The loan will be repaid in annual installments of \$40,000 over 20 years with final payment July 1, 2030. The loan is collateralized by the water and sewer receipts and is being repaid from the Sewer Fund.

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 6. DEBT (Continued)

The Artesian of Pioneer loan relates to emergency action required to repair the water media system. Artesian of Pioneer approved an interest free loan in the amount of \$300,000 for this project. Upon completion of the project a \$30,000 payment was required with the remaining balance to be repaid in annual installments of \$30,000 over a nine year period with final payment February 1, 2018. The loan is collateralized by water receipts and was paid in full during the current year from the Water Fund.

The Ohio Public Works Commission (OPWC) Loan No. CT20Q relates to the South Main Street Reconstruction project. The OPWC has approved a \$500,000 grant with an interest free loan in the amount of \$610,000 for this project. The loan is being repaid in annual installments of \$20,333 over 30 years with final payment July 1, 2045. The loan is being repaid from the South Main Street Reconstruction Fund.

The police cruiser loan was for the purpose of purchasing a new police cruiser. Greenville National Bank approved a four year loan bearing an interest rate of 2.75%. The loan will mature in 2019. This loan is being paid from the General Fund.

The United State Department of Agriculture (USDA) Loan relates to the Waste Water Treatment Plant project. The Waste Water Treatment Plan project started in August 2017. After contractor requests are approved by the USDA, amounts are sent to the Village. The Village then pays the contractor. As of December 31, 2018, \$3,432,104 of the loan proceeds have been sent to the Village for the project. The project is expected to be completed in May of 2019. No amortization schedule has been set.

The fire truck loan was for the purpose of purchasing a fire truck. Second National Bank approved a 9 year loan bearing an interest rate of 3.46%. The loan will mature in 2026. This loan will be repaid from the Fire Equipment Levy Fund.

Amortization of the above debt is scheduled as follows:

Enterprise Funds				Governmental Funds			
Year Ending December 30,	OWDA Loans			Year Ending December 30,	OPWC Loans		
	Principal	Interest	Total		Principal	Interest	Total
2019	\$223,065	\$89,646	\$312,711	2019	\$32,833	\$-	\$32,833
2020	227,624	85,087	312,711	2020	32,833	-	32,833
2021	232,309	80,403	312,712	2021	32,833	-	32,833
2022	237,125	75,587	312,712	2022	32,833	-	32,833
2023	242,075	70,637	312,712	2023	32,833	-	32,833
2024-2028	1,264,967	264,180	1,529,147	2024-2028	164,165	-	164,165
2029-2033	1,370,598	131,925	1,502,523	2029-2033	120,415	-	120,415
2034-2038	505,298	29,002	534,300	2034-2038	101,665	-	101,665
2039-2042	105,670	1,191	106,861	2039-2043	101,665	-	101,665
Total	\$4,408,731	\$827,658	\$5,236,389	2045	30,509	-	30,509
				Total	\$682,584	\$-	\$682,584

Enterprise Funds				Governmental Funds			
Year Ending December 30,	OPWC Loans			Year Ending December 30,	Lease Purchase - Factory Building		
	Principal	Interest	Total		Principal	Interest	Total
2019	\$57,500	\$ -	\$57,500	2019	\$10,447	\$874	\$11,321
2020	56,250	-	56,250	2020	10,876	445	11,321
2021	55,000	-	55,000	Total	\$21,323	\$1,319	\$22,642
2022	55,000	-	55,000				
2023	55,000	-	55,000				
2024-2028	200,000	-	200,000				
2029-2032	120,000	-	120,000				
Total	\$598,750	\$-	\$598,750				

Governmental Funds			
Year Ending December 30,	Police Cruiser Loan		
	Principal	Interest	Total
2019	\$9,065	\$249	\$9,314

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 6. DEBT (Continued)

Year Ending December 30,	Governmental Funds		Total
	Fire Truck Loan		
	Principal	Interest	
2019	\$22,340	\$6,986	\$29,326
2020	23,096	6,230	29,326
2021	23,912	5,414	29,326
2022	24,740	4,586	29,326
2023	25,596	3,730	29,326
2024-2026	82,217	5,762	87,979
Total	<u>\$201,901</u>	<u>\$32,708</u>	<u>\$234,609</u>

NOTE 7. DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

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

The Ohio Revised Code also prescribes contribution rates. OPERS members contributed 10%, of their gross salaries and the Village contributed an amount equaling 14%, of participants' gross salaries. The Village has paid all contributions required through December 31, 2018.

Ohio Police and Fire Pension Fund

The Village's certified Fire Fighters and full-time Police Officers belong to the Ohio Police and Fire Pension Fund (OP&F). OP&F is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes this plan's benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. OP&F participants contributed 12.25% of their wages. The Village contributed to OP&F an amount equal to 19.5% of full-time police members' wages and 24% of full-time fire fighters' wages, respectively. The Village has paid all contributions required through December 31, 2018.

NOTE 8. POSTEMPLOYMENT BENEFITS

Both OPERS and OP&F offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 0 percent during calendar year 2018. The portion of employer contributions allocated to health care for OPERS members in the Member Directed Plan was 4.0 percent during calendar year 2018. OP&F contributes 0.5 percent to fund these benefits.

Beginning January 1, 2019, OP&F is changing its retiree health care model and the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses.

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 9. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

NOTE 10. CONTINGENT LIABILITIES

Litigation

The Village is not currently party to any legal proceedings.

Federal and State Grants

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

NOTE 11. JOINT VENTURES WITH EQUITY INTEREST

OMEGA JV5

The Village is a Financing Participant with an ownership percentage of 0.84 percent, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA Joint Venture JV5 Agreement (Agreement), the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed, or equipped by AMP-Ohio.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near the Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 Participants.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating and Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System.

On dissolution of OMEGA JV5, the net position will be shared by the Financing Participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge, and collect rates, fees, and charges at least sufficient in order to maintain a debt coverage ratio equal to 110 percent of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations.

As of December 31, 2018, the Village had met its debt coverage obligation.

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 11. JOINT VENTURES WITH EQUITY INTEREST (Continued)

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

OMEGA JV5 is managed by AMP, which acts as the joint venture's agent. During 1993 and 2001 AMP issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024. On February 15, 2014, all of the 2004 BIRCs were redeemed from funds held under the trust agreement securing the 2004 BIRCs and the proceeds of a promissory note issued to AMP by OMEGA JV5. This was accomplished with a draw on AMP's revolving credit facility. The resulting balance was \$65,891,509 at February 28, 2014. Due to scheduled principal repayments, the resulting note receivable had been reduced at December 31, 2016 to \$0.

On January 29, 2016, OMEGA JV5 issued the 2016 Beneficial Interest Certificates ("2016 Certificates") in the amount of \$49,745,000 for the purpose of refunding the promissory note to AMP in full. The outstanding amount on the promissory note had been reduced to \$49,243,377 at the time of refunding as compared to its value at December 31, 2015 of \$49,803,187. The promissory note represented the February 2014 redemption of the 2004 Certificates from funds held under the trust agreement securing the 2004 BIRCs.

The Village's net investment to date in OMEGA JV5 was \$25,098 at December 31, 2018. Complete financial statements for OMEGA JV5 may be obtained from AMP.

OMEGA JV2

The Village is a Non-Financing Participant and an Owner Participant with an ownership percentage of .03% and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project Shares, ownership of which is held in trust for such Purchaser Participants.

Pursuant to the OMEGA JV2 Agreement (Agreement), the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the Agreement.

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 11. JOINT VENTURES WITH EQUITY INTEREST (Continued)

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participant's entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP, which acts as the joint venture's agent. During 2001, AMP issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. On January 3, 2011, AMP redeemed all of the \$31,110,000 OMEGA JV2 Project Distributive Generation Bonds then outstanding by borrowing on AMP's revolving credit facility. As such, the remaining outstanding bond principal of the OMEGA JV2 indebtedness was reduced to zero. with the remaining principal balance now residing on the AMP credit facility. As of December 31, 2018, the most current information available), the outstanding debt was \$0. The Village's net investment in OMEGA JV2 was \$1,991 at December 31, 2018. Complete financial statements for OMEGA JV2 may be obtained from AMP.

The thirty-six participating subdivisions and their respective ownership share at December 31, 2018 are:

Municipality	Percent Ownership	KW Entitlement	Municipality	Percent Ownership	KW Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.48%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.80%	1,066	Custar	0.00%	4
	<u>95.2%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

Under the Village's cash basis of accounting, the equity interest in OMEGA JV2 is not reported as an asset in the accompanying basic financial statements.

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 11. JOINT VENTURES WITH EQUITY INTEREST (Continued)

Segment Information for the Electric Fund

Included in the services provided by the Village are electric utility services financed primarily by user charges. The calculation of Joint Venture 5 (JV5) debt coverage and the financial breakdown of the Electric Fund are presented separately to satisfy debt covenant compliance requirements with AMP Ohio. The financial information for the years ended December 31, 2018 for these enterprises are indicated below:

Calculation of JV5 Debt Coverage	
	2018
Operating Income	\$ 402,668
JV5 Debt Service (Included below as cash disbursements to Amp Ohio)	69,425
KWH Tax from General Fund	-
Adjusted Operating Income Available for Debt Service	472,093
OMEGA JV5 Debt Service (paid by Amp Ohio)	69,425
Other Electric System Debt Service	-
Total Electric System Debt	\$ 69,425
Coverage (Convenants require 110% coverage of all debt)	680%

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 11. JOINT VENTURES WITH EQUITY INTEREST (Continued)

As of December 31, 2018:	Electric Fund	Other Proprietary Funds	Total Proprietary Funds
Operating Cash Receipts:			
Charges for Services	\$ 2,878,585	\$ 1,410,680	\$ 4,289,265
Other Operating Receipts	9,075	-	9,075
Total Operating Cash Receipts	2,887,660	1,410,680	4,298,340
Operating Cash Disbursements:			
Personal Services	349,711	280,828	630,539
Contractual Services	2,016,471	260,533	2,277,004
Supplies and Materials	118,810	113,072	231,882
Total Operating Cash Disbursements	2,484,992	654,433	3,139,425
Operating Receipts Over (Under) Operating Disbursements	402,668	756,247	1,158,915
Non-Operating Cash Receipts (Cash Disbursements):			
Other Nonoperating Receipts	-	2,530	2,530
Other Nonoperating Disbursements	-	(8,696)	(8,696)
Special Assessments	-	717	717
Capital Outlay	(193,991)	(4,574,102)	(4,768,093)
OWDA Interest Subsidy	-	9,530	9,530
Proceeds from Loans	-	2,201,662	2,201,662
Principal Payments	-	(382,773)	(382,773)
Interest and Fiscal Charges	-	(114,842)	(114,842)
Total Non-Operating Receipts/(Disbursements)	(193,991)	(2,865,974)	(3,059,965)
Net Receipts Before Capital Contributions, Interfund Advances and Transfers	208,677	(2,109,727)	(1,901,050)
Capital Contributions - Grants	-	2,254,758	2,254,758
Transfers - In	-	20,000	20,000
Advances - Out	-	(8,000)	(8,000)
Total Capital Contributions, Advances and Transfers	-	2,266,758	2,266,758
Change in Net Position	208,677	157,031	365,708
Net Position - Cash Basis, January 1	2,298,556	1,926,279	4,224,835
Net Position - Cash Basis, December 31	\$ 2,507,233	\$ 2,083,310	\$ 4,590,543

Village of Arcanum
Darke County, Ohio
Notes to the Financial Statements
For the Year Ended December 31, 2018

NOTE 11. JOINT VENTURES WITH EQUITY INTEREST (Continued)

As more fully described in the previous paragraphs, the Village is a member of American Municipal Power (AMP) and has participated in the AMP Generating Station (AMPGS) Project. This project intended to develop a pulverized coal power plant in Meigs County, Ohio. The Village's share was 2,237 kilowatts of a total 771,281 kilowatts, giving the Village a 0.29 percent share. The AMPGS Project required participants to sign "take or pay" contracts with AMP. As such, the participants are obligated to pay any costs incurred for the project. In November 2009, the participants voted to terminate the AMPGS Project due to projected escalating costs. These costs were therefore deemed *impaired* and participants were obligated to pay costs already incurred. In prior years, payment of these costs was not made due to AMP's pursuit of legal action to void them. As a result of a March 2014 legal ruling, the AMP Board of Trustees on April 15, 2014 and the AMPGS participants on April 16, 2014 approved the collection of the impaired costs and provided the participants with an estimate of their liability. The Village's estimated share at March 31, 2014, of the impaired costs is \$384,570. The Village received a credit of \$56,955 related to their participation in the AMP Fremont Energy Center (AFEC) Project, and another credit of \$101,168 related to the AMPGS costs deemed to have future benefit for the project participants, and made payments of \$300,000 leaving a net credit balance of impaired cost estimate of \$73,553. The Village will be leaving the credit balance with AMP to offset any additional costs in the future. Any additional costs (including line-of-credit interest and legal fees) or amounts received related to the project will impact the Village's credit balance. These amounts will be recorded as they become estimable. Since March 31, 2014, the Village's allocation of additional costs incurred by the project is \$2,973, and interest credited to the Village has been \$1,054, resulting in a net credit balance at December 31, 2018 of \$71,634. During 2018, the Village made no payments to AMP toward its net impaired cost estimate.

NOTE 12. SUBSEQUENT EVENT

In March of 2019, the Village was approved to obtain assistance from the United States Department of Agriculture (USDA) in the amount of \$2,500,000 for the purpose of constructing a new administration building.

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**VILLAGE OF ARCANUM
DARKE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Direct			
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 3,812,121
Total U.S. Department of Agriculture			<u>\$ 3,812,121</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through Ohio Development Services Agency</i>			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	C-W-16-2NZ-1	\$ 300,000
Total U.S. Department of Housing and Urban Development			<u>\$ 300,000</u>
Total Expenditures of Federal Awards			<u><u>\$ 4,112,121</u></u>

The accompanying notes are an integral part of this schedule.

**VILLAGE OF ARCANUM
DARKE COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Village of Arcanum (the Village) under programs of the federal government for the year ended December 31, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Village, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Village.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The Village has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D – LOAN PROGRAMS WITH CONTINUING COMPLIANCE REQUIREMENTS

The federal loan program listed below is administered directly by the Village, and balances and transactions relating to these programs are included in the Village's financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loan outstanding at December 31, 2018 consists of:

CFDA Number	Program/Cluster Name	Outstanding Balance at December 31, 2018
10.760	Water & Waste Disposal Systems for Rural Communities	\$3,358,404

NOTE E - MATCHING REQUIREMENTS

Certain Federal programs require the Village to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Village has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

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

Village of Arcanum
Darke County
P.O. Box 398
Arcanum, Ohio 45304

To the Village Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of cash balances, receipts, and disbursements by fund type of the Village of Arcanum, Darke County, (the Village) as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated May 22, 2019 wherein we noted the Village followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2018-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Village's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Village's Response to Finding

The Village's response to the finding identified in our audit is described in the accompanying schedule of findings and/or corrective action plan. We did not subject the Village's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

May 22, 2019

OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Village of Arcanum
Darke County
P.O. Box 398
Arcanum, Ohio 45304

To the Village Council:

Report on Compliance for the Major Federal Program

We have audited the Village of Arcanum's (the Village) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Village of Arcanum's major federal program for the year ended December 31, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Village's major federal program.

Management's Responsibility

The Village's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Village's compliance for the Village's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Village's major program. However, our audit does not provide a legal determination of the Village's compliance.

Opinion on the Major Federal Program

In our opinion, the Village of Arcanum complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended December 31, 2018.

Efficient • Effective • Transparent

Report on Internal Control Over Compliance

The Village's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Village's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on the major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Village's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.



Keith Faber
Auditor of State
Columbus, Ohio

May 22, 2019

**VILLAGE OF ARCANUM
DARKE COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
DECEMBER 31, 2018**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unmodified
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	CDFA #10.760 – Water and Waste Disposal Systems for Rural Communities
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR § 200.520?	No

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

FINDING NUMBER 2018-001

Significant Deficiency – Bank Reconciliations

Monthly reconciliations between bank/investment accounts and the accounting system provide reasonable assurance that all receipts and disbursements have been recorded in the accounting system and have been posted by the Village's bank. The Village completed a bank to book reconciliation of its checking account for each month during 2018. The Village's monthly bank reconciliations from the period of January through December contained errors that caused the Village's reconciled book balance to exceed the bank balance by \$4,041 at December 31, 2018. In addition, there was no acknowledgement that the bank reconciliations were being submitted to Village Council for their review and approval.

**FINDING NUMBER 2018-001
(Continued)**

Accurate reconciliations are a basic and essential internal control component for sound fiscal management. Village officials rely on reconciliations to make sound financial decisions. Failure to properly reconcile the bank/investment account balances to the book balances on a monthly basis increases the risk of fraud, theft, error or omissions going unidentified. Failure to present monthly bank reconciliations to Village Council for review and approval may also lead to unidentified fraud, theft, or errors and could inhibit Village Council's ability to manage the Village's operations and identify any negative financial performance indicators.

The Village should implement procedures to verify that bank reconciliations are prepared accurately with no unreconciled items. The reconciliation should balance all bank and investment accounts with total fund balances on the Village's accounting system. Additionally, the monthly bank reconciliations should be provided to Council for review and approval. Council should review and approve the reconciliations. Adjustments to bank reconciliations should be documented and any unexplained differences, including the variance noted above, should be investigated and resolved immediately.

Officials' Response: The Fiscal Officer is currently working on the reconciliations by doing a line-by-line transaction level review. The Village of Arcanum has, also, signed a contract with Local Government Services (LGS) for consultation and services.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

VILLAGE OF
ARCANUM

PO Box 398, 1 Pop Rite Dr.
Arcanum, OH 45304

OFFICES OF:

Mayor
937-692-8500

Village
Administration
937-692-8500

Municipal Tax
937-692-8500

Municipal Utilities
937-692-8565

Planning & Zoning
937-692-8500

Parks & Recreation
937-692-8500

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
DECEMBER 31, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	Failure to complete accurate bank reconciliations	Not Corrected	Reissued as Finding 2018-001. The Fiscal Officer is currently working on the reconciliations by doing a line-by-line transaction level review. The Village of Arcanum has, also, signed a contract with LGS for consultation services.
2017-002	Financial Statement Misstatements	Corrected	N/A

Fax:
937-692-5163

Web Site:
Villageofarcanum.com

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CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
DECEMBER 31, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	The Fiscal Officer is currently working on the reconciliations by doing a line-by-line transaction level review. The Village of Arcanum has, also, signed a contract with LGS for consultation services.	6/30/19	Toni Stanley, Fiscal Officer

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 937-692-5163

Web Site:
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OHIO AUDITOR OF STATE
KEITH FABER



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
MAY 30, 2019**