

***VILLAGE OF ARLINGTON
HANCOCK COUNTY, OHIO***

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2006

Charles E. Harris and Associates, Inc.
Certified Public Accountants and Government Consultants



Mary Taylor, CPA
Auditor of State

Village Council
Village of Arlington
204 N. Main Street
P. O. Box 699
Arlington, Ohio 45814

We have reviewed the *Report of Independent Accountants* of the Village of Arlington, Hancock County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 10, 2007

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**VILLAGE OF ARLINGTON
HANCOCK COUNTY**

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Charles E. Harris & Associates, Inc.
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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Village of Arlington, Hancock County (the Village) as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Village, as of December 31, 2006, and the respective changes in cash basis financial position and the respective budgetary comparison for the General Fund and major special revenue funds thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally on inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 25, 2007 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 testing of internal control over financial reporting and compliance and the results of that testing. It does not opine on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Charles E. Harris & Associates, Inc.
May 25, 2007

Village of Arlington, Hancock County
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

This discussion and analysis of the Village of Arlington's (the Village) financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2006, within the limitations of the Village's cash basis accounting. Readers should also review the basic financial statements and notes to enhance their understanding of the Village's financial performance.

Highlights

Key highlights for 2006 are as follows:

Net assets of governmental activities increased \$63,526 or 19 percent.

The Village's general receipts are primarily property and income taxes and unrestricted grants. General receipts represent 66 percent of the total cash received for governmental activities during the year.

The water, sanitary sewer and swimming pool operations, are the Village's most significant business-type activities. These activities accounted for 99 percent of all business type activity revenues and 96 percent of expenditures.

Using the Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of Governmental Accounting Standards Board Statement No. 34, as applicable to the Village's cash basis of accounting.

Report Components

The statement of net assets and the statement of activities provide information about the cash activities of the Village as a whole.

Fund financial statements provide a greater level of detail. Funds are created and maintained on the financial records of the Village as a way to segregate money whose use is restricted to a particular specified purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Village has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Village's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2006, within the limitations of cash basis accounting. The statement of net assets presents the cash balances and investments of the governmental and business-type activities of the Village at year end. The statement of activities compares cash disbursements with program receipts for each governmental program and business-type activity. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function or business-type activity draws from the Village's general receipts.

These statements report the Village's cash position and the changes in cash position. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Village's financial health. Over time, increases or decreases in the Village's cash position is one indicator of whether the Village's financial health is improving or deteriorating. When evaluating the Village's financial condition, you should also consider other nonfinancial factors as well such as the Village's property tax base, the condition of the Village's capital assets and infrastructure, the extent of the Village's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major local revenue sources such as property and income taxes.

In the statement of net assets and the statement of activities, we divide the Village into two types of activities:

Governmental activities. Most of the Village's basic services are reported here, including police, fire, streets and parks. State and federal grants, charges for services and income and property taxes finance most of these activities. Benefits provided through governmental activities are not necessarily paid for by the people receiving them.

Business-type activities. The Village's significant business-type activities include the provision of water and sanitary sewer and operations of the Village swimming pool. Business-type activities are financed by a fee charged to the customers receiving the service.

Reporting the Village's Most Significant Funds

Fund financial statements provide detailed information about the Village's major funds – not the Village as a whole. The Village establishes separate funds to better manage its many activities and to help demonstrate that money that is restricted as to how it may be used is being spent for the intended purpose. The funds of the Village are split into two categories: governmental and proprietary.

Governmental Funds - Most of the Village's activities are reported in governmental funds. The governmental fund financial statements provide a detailed view of the Village's governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent to finance the Village's programs. The Village's significant governmental funds are presented on the financial statements in separate columns. The information for nonmajor funds (funds whose activity or balances are not large enough to warrant separate reporting) is combined and presented in total in a single column. The Village's major governmental funds are the General Fund, Street Construction Maintenance and Repair Fund, General Obligation Bond Retirement Fund and Fire Equipment Fund. The programs reported in governmental funds are closely related to those reported in the governmental activities section of the entity-wide statements.

Proprietary Funds – When the Village charges customers for the services it provides, these services are generally reported in proprietary funds. When the services are provided to the general public, the

Village of Arlington, Hancock County
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

activity is reported as an enterprise fund. The Village has three major enterprise funds, the Water Operating Fund, Sewer Operating Fund and Swimming Pool Fund.

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2006 compared to 2005 on a modified cash basis:

(Table 1)
Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Cash and Cash Equivalent	\$ 396,833	\$ 333,307	\$ 508,324	\$ 560,912	\$ 905,157	\$ 894,219
Total Assets	<u>396,833</u>	<u>333,307</u>	<u>508,324</u>	<u>560,912</u>	<u>905,157</u>	<u>894,219</u>
Net Assets						
Restricted for:						
Capital Projects	73,161	35,452	-	-	73,161	35,452
Debt Service	1,742	22	-	-	1,742	22
Other Purposes	148,803	141,262	-	-	148,803	141,262
Unrestricted	<u>173,127</u>	<u>156,571</u>	<u>508,324</u>	<u>560,912</u>	<u>681,451</u>	<u>717,483</u>
Total Net Assets	<u>\$ 396,833</u>	<u>\$ 333,307</u>	<u>\$ 508,324</u>	<u>\$ 560,912</u>	<u>\$ 905,157</u>	<u>\$ 894,219</u>

- As mentioned previously, net assets of governmental activities increased \$63,526 or 19 percent during 2006.

Table 2 reflects the changes in net assets in 2006 compared to 2005.

Village of Arlington, Hancock County
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

(Table 2)
Changes in Net Assets

	Governmental Activities 2006	Governmental Activities 2005	Business Type Activities 2006	Business Type Activities 2005
Receipts:				
Program Receipts:				
Charges for Services and Sales	\$ 66,030	\$ 62,551	\$ 362,354	\$ 368,458
Operating Grants and Contributions	91,246	61,150	6,671	1,190
Capital Grants and Contributions	29,764	189,807	-	-
Total Program Receipts	187,040	313,508	369,025	369,648
General Receipts:				
Property and Other Local Taxes	89,269	74,261	-	-
Income Taxes	147,652	147,473	-	-
Grants and Entitlements Not Restricted to Specific Programs	95,482	56,933	-	-
Interest	28,375	27,125	-	-
Miscellaneous	4,443	6,119	3,977	5,064
Total General Receipts	365,221	311,911	3,977	5,064
Total Receipts	552,261	625,419	373,002	374,712
Disbursements:				
Security of Persons and Property	93,090	98,283	-	-
Public Health Services	6,740	9,787	-	-
Leisure Time Activities	6,544	-	-	-
Community Environment	21,848	14,453	-	-
Transportation	107,350	108,528	-	-
General Government	95,957	85,043	-	-
Capital Outlay	32,482	166,132	-	-
Principal Retirement	40,000	40,000	-	-
Interest and Fiscal Charges	18,280	20,530	-	-
Other Governmental	9,944	7,224	-	-
Water Operations	-	-	241,513	204,578
Sewer Operations	-	-	158,730	118,801
Swimming Pool	-	-	64,988	39,997
Park Operations	-	-	14,620	12,921
Apple Grove Maintenance	-	-	2,239	168
Total Disbursements	432,235	549,980	482,090	376,465
Excess (Deficiency) Before Transfers	120,026	75,439	(109,088)	(1,753)
Transfers	(56,500)	(27,500)	56,500	27,500
Increase in Net Assets	63,526	47,939	(52,588)	25,747
Net Assets, January 1	333,307	285,368	560,912	535,165
Net Assets, December 31	\$ 396,833	\$ 333,307	\$ 508,324	\$ 560,912

Governmental program receipts represent 34 percent of total governmental receipts and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits, special assessments for street repair and street lighting and charges to surrounding townships for fire services provided under contract.

Village of Arlington, Hancock County
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

General governmental receipts represent 66 percent of the Village's total governmental receipts, and of this amount, over 64 percent are local taxes. State and federal grants and entitlements make up 26 percent of the Village's general receipts. Interest and Other receipts make up the remaining 10 percent.

Disbursements for General Government represent the overhead costs of running the Village and the support services provided for the other Village activities.

Security of Persons and Property are the costs of police and fire protection and street lighting and Transportation is the cost of maintaining the roads and alleys.

Governmental Activities

If you look at the Statement of Activities, you will see that the first column lists the major services provided by the Village. The next column identifies the costs of providing these services. The next three columns of the Statement entitled Program Receipts identify amounts paid by people who are directly charged for the service and grants received by the Village that must be used to provide a specific service. The net Receipt (Disbursement) column compares the program receipts to the cost of the service. This "net cost" amount represents the cost of the service which ends up being paid from money provided by local taxpayers. These net costs are paid from the general receipts which are presented at the bottom of the Statement. A comparison between 2006 and 2005 total cost of services and the net cost is presented in Table 3.

(Table 3)

Governmental Activities

	Total Cost Of Services 2006	Net Cost of Services 2006	Total Cost Of Services 2005	Net Cost of Services 2005
Security of Persons and Property	\$ 93,090	\$ 28,501	\$ 98,283	\$ 42,179
Public Health Services	6,740	6,740	9,787	9,787
Leisure Time Activities	6,544	(9,721)	-	-
Community Environment	21,848	16,031	14,453	(21,848)
Transportation	107,350	9,198	108,528	19,598
General Government	95,957	93,740	85,043	83,136
Capital Outlay	32,482	32,482	166,132	35,866
Principal Retirement	40,000	40,000	40,000	40,000
Interest and Fiscal Charges	18,280	18,280	20,530	20,530
Other	9,944	9,944	7,224	7,224
Total Expenses	\$ 432,235	\$ 245,195	\$ 549,980	\$ 236,472

The dependence upon property and income tax receipts is apparent as over 56 percent of governmental activities are supported through these general receipts.

Business-Type Activities

With the exception of Swimming Pool and Park Operations the business type activities are supported by charges for services. Transfers from the General Fund are necessary to support the Swimming Pool and Park Operations.

The Village's Funds

Total governmental funds had receipts and other financing sources of \$626,911 and disbursements and other financing uses of \$563,385. The greatest change within governmental funds occurred within the General Fund and the Fire Equipment Fund. The fund balance increased by \$16,556 in the General Fund due to an unanticipated increase in intergovernmental revenues due to an estate tax settlement. The fund balance of the Fire Equipment Fund increased \$37,709 as the Village accumulated resources for the purchase of a fire truck, expected to be delivered in 2007.

General Fund Budgeting Highlights

The Village's budget is prepared according to Ohio law and is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2006, the Village amended its General Fund budget several times to reflect changes in line items only based on changing circumstances. There were no significant changes in total budget amounts for the General Fund.

Final budgeted receipts did not change from the original budgeted receipts. The difference between final budgeted receipts and actual receipts was due to an unanticipated increase in intergovernmental revenues due to an estate tax settlement.

Final disbursements and other financing uses were budgeted at \$458,441 while actual disbursements and other financing uses were \$316,933. The variance is the result of the Village appropriating all available resources, but using a conservative approach in actual expenditures made.

Capital Assets and Debt Administration

Capital Assets

The Village does not record its capital assets and infrastructure on the financial statements.

Debt

At December 31, 2006, the Village's outstanding debt included \$290,000 in general obligation bonds issued for swimming pool improvements and construction of the Village hall, and \$1,671,106 in a combination of mortgage revenue bonds, OPWC and OWDA loans issued to finance utility system construction and improvements. For further information regarding the Village's debt, refer to the notes to the basic financial statements.

Current Issues

The challenge for all Villages is to provide quality services to the public while staying within the restrictions imposed by limited, and in some cases shrinking, funding. We rely heavily on local taxes and have very little industry to support the tax base. The Village of Arlington is a rural village located in southern Hancock County. The Village serves approximately 1,300 citizens and employs two full time and approximately 20-25 seasonal employees. The Village receives the majority of its funding from property and income taxes and charges for services from its utility systems.

In 2006, the Village entered into a contract for the purchase of a new fire truck with delivery expected in 2007.

Village of Arlington, Hancock County
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Contacting the Village's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Village's finances and to reflect the Village's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Donna Corbin, Fiscal Officer, Village of Arlington, 204 N. Main Street, P.O. Box 699, Arlington, Ohio 45814-0699.

Village of Arlington, Hancock County
Statement of Net Assets - Cash Basis
 December 31, 2006

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Total</u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 396,833	\$ 508,324	\$ 905,157
<i>Total Assets</i>	<u>\$ 396,833</u>	<u>\$ 508,324</u>	<u>\$ 905,157</u>
Net Assets			
Restricted for:			
Capital Projects	\$ 73,161	\$ -	\$ 73,161
Debt Service	1,742	-	1,742
Other Purposes	148,803	-	148,803
Unrestricted	<u>173,127</u>	<u>508,324</u>	<u>681,451</u>
<i>Total Net Assets</i>	<u>\$ 396,833</u>	<u>\$ 508,324</u>	<u>\$ 905,157</u>

See accompanying notes to the basic financial statements

Village of Arlington, Hancock County
Statement of Activities - Cash Basis
For the Year Ended December 31, 2006

	Program Cash Receipts			
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Security of Persons and Property	\$ 93,090	\$ 56,207	\$ 8,382	\$ -
Public Health Services	6,740	-	-	-
Leisure Time Activities	6,544	165	16,100	-
Community Environment	21,848	-	-	5,817
Transportation	107,350	7,441	66,764	23,947
General Government	95,957	2,217	-	-
Capital Outlay	32,482	-	-	-
Other	9,944	-	-	-
Debt Service:				
Principal	40,000	-	-	-
Interest and Fiscal Charges	18,280	-	-	-
Total Governmental Activities	<u>432,235</u>	<u>66,030</u>	<u>91,246</u>	<u>29,764</u>
Business Type Activities				
Water Operations	241,513	222,742	-	-
Sewer Operations	158,730	122,229	-	-
Swimming Pool	64,988	15,580	6,275	-
Park Operations	14,620	630	-	-
Apple Grove Maintenance	2,239	1,173	396	-
Total Business Type Activities	<u>482,090</u>	<u>362,354</u>	<u>6,671</u>	<u>-</u>
Total	<u>\$ 914,325</u>	<u>\$ 428,384</u>	<u>\$ 97,917</u>	<u>\$ 29,764</u>

General Receipts

Property and Other Local Taxes
Municipal Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Interest
Miscellaneous
Total General Receipts

Transfers
Total General Receipts and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Disbursements) Receipts and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (28,501)	\$ -	\$ (28,501)
(6,740)	-	(6,740)
9,721	-	9,721
(16,031)	-	(16,031)
(9,198)	-	(9,198)
(93,740)	-	(93,740)
(32,482)	-	(32,482)
(9,944)	-	(9,944)
(40,000)	-	(40,000)
(18,280)	-	(18,280)
<u>(245,195)</u>	<u>-</u>	<u>(245,195)</u>
-	(18,771)	(18,771)
-	(36,501)	(36,501)
-	(43,133)	(43,133)
-	(13,990)	(13,990)
-	(670)	(670)
<u>(245,195)</u>	<u>(113,065)</u>	<u>(358,260)</u>
89,269	-	89,269
147,652	-	147,652
95,482	-	95,482
28,375	-	28,375
4,443	3,977	8,420
<u>365,221</u>	<u>3,977</u>	<u>369,198</u>
(56,500)	56,500	-
<u>308,721</u>	<u>60,477</u>	<u>369,198</u>
63,526	(52,588)	10,938
<u>333,307</u>	<u>560,912</u>	<u>894,219</u>
<u>\$ 396,833</u>	<u>\$ 508,324</u>	<u>\$ 905,157</u>

Village of Arlington, Hancock County
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
December 31, 2006

	General	Street Construction Maintenance and Repair	General Obligation Bond Retirement	Fire Equipment Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$ 173,127	\$ 12,808	\$ 1,742	\$ 73,161	\$ 135,995	\$ 396,833
<i>Total Assets</i>	<u>\$ 173,127</u>	<u>\$ 12,808</u>	<u>\$ 1,742</u>	<u>\$ 73,161</u>	<u>\$ 135,995</u>	<u>\$ 396,833</u>
Fund Balances						
Reserved:						
Reserved for Encumbrances	\$ 7,162	\$ 634	\$ -	\$ -	\$ 1,817	\$ 9,613
Unreserved:						
Undesignated, Reported in:						
General Fund	165,965	-	-	-	-	165,965
Special Revenue Funds	-	12,174	-	-	134,178	146,352
Debt Service Fund	-	-	1,742	-	-	1,742
Capital Projects Funds	-	-	-	73,161	-	73,161
<i>Total Fund Balances</i>	<u>\$ 173,127</u>	<u>\$ 12,808</u>	<u>\$ 1,742</u>	<u>\$ 73,161</u>	<u>\$ 135,995</u>	<u>\$ 396,833</u>

See accompanying notes to the basic financial statements

Village of Arlington, Hancock County
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Street Construction Maintenance and Repair	General Obligation Bond Retirement	Fire Equipment Fund	Other Governmental Funds	Total Governmental Funds
Receipts						
Property and Other Local Taxes	\$ 46,681	\$ -	\$ -	\$ 42,588	\$ -	\$ 89,269
Municipal Income Taxes	147,652	-	-	-	-	147,652
Intergovernmental	95,482	59,499	-	8,382	26,740	190,103
Special Assessments	-	-	-	-	55,261	55,261
Charges for Services	-	7,441	-	-	25,058	32,499
Fines, Licenses and Permits	2,217	-	-	-	-	2,217
Earnings on Investment	27,875	2,441	-	-	500	30,816
Miscellaneous	-	174	-	-	-	174
Total Receipts	319,907	69,555	-	50,970	107,559	547,991
Disbursements						
Current:						
Security of Persons and Property	26,921	-	-	12,533	53,636	93,090
Public Health Services	6,740	-	-	-	-	6,740
Leisure Time Activities	-	-	-	-	6,544	6,544
Community Environment	-	-	-	-	21,848	21,848
Transportation	7,394	67,247	-	-	32,709	107,350
General Government	95,140	-	-	728	89	95,957
Capital Outlay	32,482	-	-	-	-	32,482
Debt Service:						
Principal Retirement	-	-	40,000	-	-	40,000
Interest and Fiscal Charges	-	-	18,280	-	-	18,280
Total Disbursements	168,677	67,247	58,280	13,261	114,826	422,291
Excess of Receipts Over (Under) Disbursements	151,230	2,308	(58,280)	37,709	(7,267)	125,700
Other Financing Sources (Uses)						
Transfers In	-	-	60,000	-	12,500	72,500
Transfers Out	(129,000)	-	-	-	-	(129,000)
Advances In	2,150	-	-	-	-	2,150
Advances Out	(2,150)	-	-	-	-	(2,150)
Other Financing Sources	4,270	-	-	-	-	4,270
Other Financing Uses	(9,944)	-	-	-	-	(9,944)
Total Other Financing Sources (Uses)	(134,674)	-	60,000	-	12,500	(62,174)
Net Change in Fund Balances	16,556	2,308	1,720	37,709	5,233	63,526
Fund Balances Beginning of Year	156,571	10,500	22	35,452	130,762	333,307
Fund Balances End of Year	\$ 173,127	\$ 12,808	\$ 1,742	\$ 73,161	\$ 135,995	\$ 396,833

See accompanying notes to the basic financial statements

Village of Arlington, Hancock County
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual -Budget Basis
General Fund
For the Year Ended December 31, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Property and Other Local Taxes	\$ 52,534	\$ 52,534	\$ 46,681	\$ (5,853)
Municipal Income Taxes	150,000	150,000	147,652	(2,348)
Intergovernmental	56,545	66,545	95,482	28,937
Charges for Services	10,000	-	-	-
Fines, Licenses and Permits	2,500	2,500	2,217	(283)
Earnings on Investments	25,000	25,000	27,875	2,875
<i>Total receipts</i>	<u>296,579</u>	<u>296,579</u>	<u>319,907</u>	<u>23,328</u>
Disbursements				
Current:				
Security of Persons and Property	28,441	28,441	26,921	1,520
Public Health Services	10,000	10,000	6,740	3,260
Transportation	8,260	9,510	7,394	2,116
General Government	101,367	110,167	95,705	14,462
Capital Outlay	175,373	161,123	39,079	122,044
<i>Total Disbursements</i>	<u>323,441</u>	<u>319,241</u>	<u>175,839</u>	<u>143,402</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>(26,862)</u>	<u>(22,662)</u>	<u>144,068</u>	<u>166,730</u>
Other Financing Sources (Uses)				
Transfers Out	(125,000)	(129,000)	(129,000)	-
Advances In	-	-	2,150	2,150
Advances Out	-	-	(2,150)	(2,150)
Other Financing Sources	5,291	5,291	4,270	(1,021)
Other Financing Uses	(10,000)	(10,200)	(9,944)	256
<i>Total Other Financing Sources (Uses)</i>	<u>(129,709)</u>	<u>(133,909)</u>	<u>(134,674)</u>	<u>(765)</u>
<i>Net Change in Fund Balance</i>	<u>(156,571)</u>	<u>(156,571)</u>	<u>9,394</u>	<u>165,965</u>
<i>Fund Balance Beginning of Year</i>	155,340	155,340	155,340	-
Prior Year Encumbrances Appropriated	1,231	1,231	1,231	-
<i>Fund Balance End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 165,965</u>	<u>\$ 165,965</u>

See accompanying notes to the basic financial statements

Village of Arlington, Hancock County
*Statement of Receipts, Disbursements and Changes
 In Fund Balance - Budget and Actual -Budget Basis
 Street Construction Maintenance and Repair Fund
 For the Year Ended December 31, 2006*

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Receipts				
Intergovernmental	\$ 55,000	\$ 60,000	\$ 59,499	\$ (501)
Charges for Services	3,750	3,750	7,441	3,691
Earnings on Investments	1,250	1,250	2,441	1,191
Miscellaneous	-	-	174	174
<i>Total receipts</i>	<u>60,000</u>	<u>65,000</u>	<u>69,555</u>	<u>4,555</u>
Disbursements				
Current:				
Transportation	<u>70,500</u>	<u>75,500</u>	<u>67,881</u>	<u>7,619</u>
<i>Net Change in Fund Balance</i>	(10,500)	(10,500)	1,674	12,174
<i>Fund Balance Beginning of Year</i>	<u>10,500</u>	<u>10,500</u>	<u>10,500</u>	<u>-</u>
<i>Fund Balance End of Year</i>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,174</u>	<u>\$ 12,174</u>

See accompanying notes to the basic financial statements

Village of Arlington, Hancock County
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
December 31, 2006

	Business-Type Activities				Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Swimming Pool Fund	Other Enterprise Funds	
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 205,984	\$ 230,965	\$ 2,596	\$ 68,779	\$ 508,324
Net Assets					
Unrestricted	\$ 205,984	\$ 230,965	\$ 2,596	\$ 68,779	\$ 508,324

See accompanying notes to the basic financial statements

Village of Arlington, Hancock County
*Statement of Cash Receipts,
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2006*

	Business-Type Activities				Total Enterprise Funds
	Water Operating Fund	Sewer Operating Fund	Swimming Pool Fund	Other Enterprise Funds	
Operating Receipts					
Charges for Services	\$ 222,292	\$ 95,729	\$ 15,580	\$ 28,753	\$ 362,354
Operating Disbursements					
Personal Services	22,517	22,309	25,356	5,281	75,463
Employee Fringe Benefits	3,132	3,257	3,842	827	11,058
Contractual Services	21,335	17,162	7,536	841	46,874
Supplies and Materials	40,760	58,160	25,768	9,909	134,597
Other	-	-	-	182	182
<i>Total Operating Disbursements</i>	<u>87,744</u>	<u>100,888</u>	<u>62,502</u>	<u>17,040</u>	<u>268,174</u>
<i>Operating Income (Loss)</i>	134,548	(5,159)	(46,922)	11,713	94,180
Non-Operating Receipts (Disbursements)					
Intergovernmental Revenue	-	-	6,275	396	6,671
Other Non-Operating Receipts	2,707	1,270	-	-	3,977
Capital Outlay	(45,838)	(30,942)	(2,486)	-	(79,266)
Principal Payments	(79,041)	-	-	(15,000)	(94,041)
Interest and Fiscal Charges	(28,709)	-	-	(11,900)	(40,609)
<i>Loss before Transfers and Advances</i>	(16,333)	(34,831)	(43,133)	(14,791)	(109,088)
Transfers In	-	-	45,500	11,000	56,500
Advances In	-	-	-	2,150	2,150
Advances Out	-	-	-	(2,150)	(2,150)
<i>Change in Net Assets</i>	(16,333)	(34,831)	2,367	(3,791)	(52,588)
<i>Net Assets Beginning of Year</i>	<u>222,317</u>	<u>265,796</u>	<u>229</u>	<u>72,570</u>	<u>560,912</u>
<i>Net Assets End of Year</i>	<u>\$ 205,984</u>	<u>\$ 230,965</u>	<u>\$ 2,596</u>	<u>\$ 68,779</u>	<u>\$ 508,324</u>

See accompanying notes to the basic financial statements

Note 1 – Reporting Entity

The Village of Arlington, Hancock County, Ohio (the Village), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Village is directed by a six-member Council elected at large for four year terms. The Mayor is elected to a four-year term, serves as the President of Council and votes only to break a tie.

The reporting entity is comprised of the primary government, component units and other organizations that were included to ensure that the financial statements are not misleading.

A. Primary Government

The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The Village provides general government services, water and sewer utilities, maintenance of Village streets, park operations, and contracts with the Hancock County Sheriff for police services. The Village residents approved a tax levy, which along with charges for services to the various surrounding townships and transfers from the general fund, support a volunteer fire department.

B. Component Units

Component units are legally separate organizations for which the Village is financially accountable. The Village is financially accountable for an organization if the Village appoints a voting majority of the organization's governing board and (1) the Village is able to significantly influence the programs or services performed or provided by the organization; or (2) the Village is legally entitled to or can otherwise access the organization's resources; the Village is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide support to, the organization; or the Village is obligated for the debt of the organization. The Village is also financially accountable for any organizations that are fiscally dependent of the Village in that the Village approves their budget, the issuance of their debt or the levying of their taxes. Component units also include legally separate, tax-exempt entities whose resources are for the direct benefit of the Village, are accessible to the Village and are significant in amount to the Village. Based on the above criteria the Village has no component units.

The financial statements exclude the following entities, which perform activities within the Village's boundaries for the benefit of its residents, because the Village is not financially accountable for these entities nor are they fiscally dependent on the Village:

Arlington Local School District
Appleseed Joint Ambulance District

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

As discussed further in Note 2.C, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The Village does not apply FASB statements issued after November 30, 1989, to its governmental or business-type activities and to its enterprise funds. Following are the more significant of the Village's accounting policies.

A. Basis of Presentation

The Village's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Village as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Village that are governmental and those that are considered business-type. Governmental activities generally are financed through taxes, intergovernmental receipts or other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of net assets presents the cash balance of the governmental and business-type activities of the Village at year end. The statement of activities compares disbursements with program receipts for each of the Village's governmental and business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the Village is responsible. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function or business-type activity is self-financing on a cash basis or draws from the Village's general receipts.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Proprietary fund statements distinguish operating transactions from nonoperating transactions. Operating receipts generally result from exchange transactions such as charges for services directly relating to the funds' principal services. Operating disbursements include costs of sales and services and administrative costs. The fund statements report all other receipts and disbursements as nonoperating.

B. Fund Accounting

The Village uses fund accounting to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. Funds are used to segregate resources that are restricted as to use. The funds of the Village are divided into two categories governmental and proprietary.

Governmental Funds

The Village classifies funds financed primarily from taxes, intergovernmental receipts (e.g. grants), and other nonexchange transactions as governmental funds. The Village's major governmental funds are the General Fund, Street Construction, Maintenance and Repair Fund, General Obligation Bond Retirement Fund and Fire Equipment Fund. The General Fund is used to account for all financial resources, except those required to be accounted for 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. The Street Construction Maintenance and Repair Fund receives motor vehicle and gasoline license taxes for the upkeep and maintenance of Village streets and alleys. The General Obligation Bond Retirement Fund receives transfers from the general fund to pay principal and interest payments on bonds issued for the

construction of the Village Hall and replacement of the Village swimming pool. The Fire Equipment Fund received property taxes and State grants for purchasing fire equipment. The other governmental funds of the Village account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds

The Village classifies funds financed primarily from user charges for goods or services as proprietary. Proprietary funds are classified as enterprise funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Village's major enterprise funds are the water, sewer and swimming pool funds.

Water Fund - The water fund accounts for the provision of water to the residents and commercial users located within the Village.

Sewer Fund - The sewer fund accounts for the provision of sanitary sewer services to the residents and commercial users within the Village.

Swimming Pool Fund - The swimming pool fund accounts for the operations of the Village swimming pool.

C. Basis of Accounting

The Village's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the Village's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

D. Budgetary Process

All funds are legally required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources, and the appropriation ordinance, both of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriation ordinance is the Village Council's authorization to spend resources and sets limits on cash disbursements plus encumbrances at the level of control selected by the Village Council. The legal level of control has been established at the departmental level.

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Clerk. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificated of estimated resources in effect at the time final appropriations were passed by the Village Council.

The appropriation ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Village Council during the year.

E. Cash and Investments

To improve cash management, cash received by the Village is pooled and invested. Individual fund integrity is maintained through Village records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

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

During 2006, the Village invested in nonnegotiable certificates of deposit.

Interest earnings are allocated to Village funds according to State statutes, grant requirements, or debt related restrictions. Interest receipts credited to the General Fund during 2006 was \$27,875 which includes \$22,229 assigned from other Village funds.

F. Restricted Assets

Cash, cash equivalents and investments are reported as restricted when limitations on their use change the nature or normal understanding of their use. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or imposed by law through constitutional provisions or enabling legislation. The Village had no restricted assets at December 31, 2006.

G. Inventory and Prepaid Items

The Village reports disbursements for inventories and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

H. Capital Assets

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

I. Interfund Receivables/Payables

The Village reports advances-in and advances-out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements. The Village had no outstanding advances at December 31, 2006.

J. Accumulated Leave

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

K. Employer Contributions to Cost-Sharing Pension Plans

The Village recognizes the disbursement for their employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

L. Long-Term Obligations

The Village's cash basis financial statements do not report liabilities for bonds or other long-term obligations. Proceeds of debt are reported when the cash is received and principal and interest payments are reported when paid.

M. Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include resources restricted for uses required by the funding source. Net assets are restricted for capital projects, debt service and other purposes.

The Village's policy is to first apply restricted resources when an obligation is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Fund Balance Reserves

The Village reserves any portion of fund balances which is not available for appropriation or which is legally segregated for a specific future use. Unreserved fund balance indicates that portion of fund balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

O. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general receipts.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/disbursements in proprietary funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented in the financial statements.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence. Neither of these types of transactions occurred in 2006.

Note 3 – Budgetary Basis of Accounting

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Statement of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budgetary Basis presented for the general fund and the street construction maintenance and repair major special revenue fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budgetary basis and the cash basis is outstanding year end encumbrances are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis). The encumbrances outstanding at year end (budgetary basis) amounted to \$7,162 for the general fund and \$634 for the street construction, maintenance and repair fund.

Note 4 – Deposits and Investments

Monies held by the Village are classified by State statute into three categories.

Active monies are public monies determined to be necessary to meet current demands upon the Village treasury. Active monies must be maintained either as cash in the Village treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

Interim monies held by the Village can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Village, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

At year end, the Village had no undeposited cash on hand.

Deposits

Custodial credit risk is the risk that in the event of bank failure, the Village will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$246,955 of the Village's bank balance of \$926,955 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Village's name.

The Village has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Village or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

The Village had no investments at year-end.

Note 5 – Income Taxes

The Village levies a one percent income tax whose proceeds are placed into the General Fund. The Village levies and collects the tax on all income earned within the Village as well as on incomes of residents earned outside the Village. In the latter case, the Village allows a credit of the lesser of actual taxes paid to another city or one percent of the taxable income. Employers within the Village are required to withhold income tax on employee earnings and remit the tax to the Village at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually.

Note 6 – Property Taxes

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the Village. Real property tax receipts received in 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax receipts received in 2006 represent the collection of 2005 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2005, were levied after October 1, 2005, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax receipts received in 2006 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The assessed values upon which the fiscal year 2006 taxes were collected are \$19,354,242, with a tax rate per \$1,000 of assessed valuation of \$4.70.

Note 7 – Risk Management

The Village is exposed to various risks of property and casualty losses, and injuries to employees. The Village insures against injuries to employees through the Ohio Bureau of Worker’s Compensation.

The Village belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. PEP is a member of the American Public Entity Excess Pool (APEEP). Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members’ deductibles.

Casualty Coverage

PEP retains casualty risks up to \$250,000 per occurrence, including claim adjustment expenses. PEP pays a percentage of its contributions to APEEP. APEEP reinsures claims exceeding \$250,000, up to \$1,750,000 per claim and \$10,000,000 in the aggregate per year. Governments can elect additional coverage, from \$2,000,000 to \$12,000,000 with the General Reinsurance Corporation, through contracts with PEP.

If losses exhaust PEP’s retained earnings, APEEP provides *excess of funds available* coverage up to \$5,000,000 per year, subject to a per-claim limit of \$2,000,000.

Property Coverage

Through 2004, PEP retained property risks, including automobile physical damage, up to \$100,000 on any specific loss in any one occurrence. The Travelers Indemnity Company reinsured losses exceeding \$100,000 up to \$500 million per occurrence.

Beginning in 2005, Travelers reinsures specific losses exceeding \$250,000 up to \$600 million per occurrence. APEEP reinsures members for specific losses exceeding \$100,000 up to \$250,000 per occurrence, subject to an annual aggregate loss payment. Travelers provides aggregate stop-loss coverage based upon the combined members’ total insurable value. If the stop loss is reached by payment of losses between \$100,000 and \$250,000, Travelers will reinsure specific losses exceeding \$100,000 up to their \$600 million per occurrence limit. The aggregate stop-loss limit for 2005 was \$1,682,589.

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

Property and casualty settlements did not exceed insurance coverage for the past three fiscal years.

Financial Position

PEP’s financial statements (audited by other accountants) conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31, 2005 and 2004 (the latest information available):

<u>Casualty Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$29,719,675	\$27,437,169
Liabilities	(15,994,168)	(13,880,038)
Retained earnings	<u>\$13,725,507</u>	<u>\$13,557,131</u>

Village of Arlington, Hancock County
Notes to the Financial Statements
For the Year Ended December 31, 2006

<u>Property Coverage</u>	<u>2005</u>	<u>2004</u>
Assets	\$4,443,332	\$3,648,272
Liabilities	<u>(1,068,245)</u>	<u>(540,073)</u>
Retained earnings	<u>\$3,375,087</u>	<u>\$3,108,199</u>

At December 31, 2005 and 2004, respectively, casualty coverage liabilities noted above include approximately \$14.3 million and \$12 million of estimated incurred claims payable. The Casualty Coverage assets and retained earnings above also include approximately \$14.3 million and \$12 million of unpaid claims to be billed to approximately 430 member governments in the future, as of December 31, 2005 and 2004, respectively. These amounts will be included in future contributions from members when the related claims are due for payment. The Village's share of these unpaid claims collectible in future years is approximately \$32,312. This payable includes the subsequent year's contribution due if the Government terminates participation, as described in the last paragraph below.

Based on discussions with PEP the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership. The Village became a member of PEP in 2005.

<u>Contributions to PEP</u>	
2004	\$0
2005	\$17,266
2006	\$16,156

After completing one year of membership, members may withdraw on each anniversary of the date they joined PEP. They must provide written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's contribution. Withdrawing members have no other future obligation to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the withdrawal.

Note 8 – Defined Benefit Pension Plans

The Village participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6701 or (800) 222-7377.

Village of Arlington, Hancock County
Notes to the Financial Statements
For the Year Ended December 31, 2006

For the year ended December 31, 2006, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 9 percent of their annual covered salaries an increase from 8.5 percent for 2005. The employer contribution rate for pension benefits for 2006 was 13.70 percent an increase from 13.55 percent for 2005. Of the 14 percent 9 percent was used to fund pension benefits and the remaining 5 percent was used to fund retiree health care benefits.

The Village's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2006, 2005, and 2004 were \$10,686, \$10,283, and \$14,168, respectively; 100 percent has been contributed for 2006, 2005 and 2004.

Note 9 – Postemployment Benefits

Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 local government employer contribution rate was 14 percent of covered payroll; 5 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between 0.50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase at the projected wage inflation rate plus an additional factor ranging from 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual Village contributions for 2006 which were used to fund postemployment benefits were \$6,937. The actual contribution and the actuarially required contribution amounts are the same. The actuarial value of OPERS's net assets available for payment of benefits at December 31, 2005 (the latest information available) was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs. Member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

Village of Arlington, Hancock County
Notes to the Financial Statements
For the Year Ended December 31, 2006

Note 10 – Debt

Debt outstanding at December 31, 2006, was as follows:

	Interest Rate	Principal Outstanding at 12/31/05	Principal Issued	Principal Retired	Principal Outstanding at 12/31/06	Amount Due in One Year
Sewer System Mortgage Bonds	5.00%	\$ 238,000	\$ -	\$ 15,000	\$ 223,000	\$ 27,150
OPWC South Main Street Waterline	0.00%	23,974	-	3,425	20,549	3,425
OWDA Waterline	6.56%	53,470	-	10,619	42,851	14,126
Town Hall/Swimming Pool GO Bonds	5.63%	330,000	-	40,000	290,000	61,030
OPWC East Alley Waterline	0.00%	92,252	-	6,589	85,663	6,590
OWDA Water Plant Construction	2.00%	1,273,492	-	53,989	1,219,503	79,190
OPWC West Alley Waterline	0.00%	83,959	-	4,419	79,540	4,419
		<u>\$ 2,095,147</u>	<u>\$ -</u>	<u>\$ 134,041</u>	<u>\$ 1,961,106</u>	<u>195,930</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 taxes 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.

The Ohio Water Development Authority (OWDA) Waterline 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 \$3,295, with no interest, over 20 years.

The Ohio Water Development Authority (OWDA) loan relates to water plant construction. The OWDA approved up to \$1,616,550 in loans to the Village for this project. The loans will be repaid in semiannual installments of \$39,595, 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 Ohio Public Works Commission (OPWC) loan relates to a West Alley Waterline Replacement Project. The OPWC loaned the Village \$88,378 for this project. The loan will be repaid in semiannual installments of \$2,209, with no interest, over 20 years.

Village of Arlington, Hancock County
Notes to the Financial Statements
For the Year Ended December 31, 2006

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	Town Hall/ Swimming Pool General Obligation Bonds	OPWC East Alley Waterline Loan	OWDA Water Plant Construction Loan	OPWC West Alley Waterline Loan
2007	\$ 27,150	\$ 3,425	\$ 14,126	\$ 61,030	\$ 6,590	\$ 79,190	\$ 4,419
2008	26,350	3,425	14,126	58,623	6,590	79,190	4,419
2009	26,550	3,425	14,126	56,215	6,590	79,190	4,419
2010	26,700	3,425	7,063	58,763	6,590	79,190	4,419
2011	26,800	3,425	-	55,988	6,590	79,190	4,419
2012-2016	134,750	3,424	-	58,163	32,950	395,945	22,095
2017-2021	27,300	-	-	-	19,764	277,015	22,095
2022-2025	-	-	-	-	-	356,354	13,255
Total	<u>\$ 295,600</u>	<u>\$ 20,549</u>	<u>\$ 49,441</u>	<u>\$ 348,782</u>	<u>\$ 85,664</u>	<u>\$ 1,425,264</u>	<u>\$ 79,540</u>

Note 11 – Interfund Transfers and Advances

During 2006 the following transfers were made:

Transfers from the General Fund to:	
Fire Fund	\$ 12,500
General Obligation Bond Retirement Fund	60,000
Swimming Pool Fund	45,500
Other Non-major Enterprise Funds	11,000
Total Transfers from the General Fund	<u>\$ 129,000</u>

Transfers represent the allocation of unrestricted receipts collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The Village also made advances totaling \$2,150 from the General Fund to the Other Non-Major Enterprise Funds. All of these advances were repaid by year end.

Note 12 – Contingent Liabilities

The Village is currently not involved in any lawsuits.

Amounts grantor agencies pay to the Village are subject to audit and adjustment by the grantor, principally the state government. Grantors 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.

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Charles E. Harris & Associates, Inc.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the Village Council:

We have audited the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Village of Arlington, Hancock County, Ohio (the Village) as of and for the year ended December 31, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated May 25, 2007, wherein we noted the Village uses the cash basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Controls Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Village's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the cash basis of accounting such that there is more than a remote likelihood that a misstatement of the Village's financial statements that is more than inconsequential will not be prevented or detected by the Village's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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, grant agreements and other matters, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to management of the Village in a separate letter dated May 25, 2007.

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

Charles E. Harris and Associates, Inc.
May 25, 2007

VILLAGE OF ARLINGTON
HANCOCK COUNTY, OHIO
For the Year Ended December 31, 2006

SCHEDULE OF PRIOR AUDIT FINDINGS

The prior audit, for the year ended December 31, 2005, reported no material citations or recommendations.



Mary Taylor, CPA
Auditor of State

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
AUGUST 23, 2007**