



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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VILLAGE OF ARCANUM
DARKE COUNTY

REGULAR AUDIT

For the Year Ended December 31, 2011
Fiscal Year Audited Under GAGAS: 2011



Dave Yost • Auditor of State

Village Council
Village of Arcanum
104 West South Street
Arcanum, Ohio 45304

We have reviewed the *Independent Auditor's Report* of the Village of Arcanum, Darke County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

July 16, 2012

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**VILLAGE OF ARCANUM
DARKE COUNTY**

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Village of Arcanum
Darke County
104 West South St.
Arcanum, Ohio 45304

To the Village Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Arcanum, Darke County, Ohio (the Village) as of and for the year ended December 31, 2011, 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 opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 opinions.

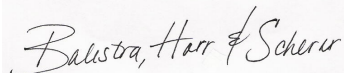
As discussed in Note 2, the accompanying financial statements and notes follow the cash accounting basis. This is a comprehensive accounting basis other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, business type-activities, each major fund and the aggregate remaining fund information of the Village of Arcanum, Darke County, Ohio, as of December 31, 2011 and the respective changes in cash financial position, thereof and the respective budgetary comparison for the General Fund and State Highway Fund thereof for the year then ended in conformity with the basis of accounting Note 2 describes.

As described in Note 14, during 2011 the Village of Arcanum adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2012, 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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. 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.

We conducted our audit to opine on the Village's financial statements taken as a whole. Management's Discussion & Analysis includes tables of net assets, changes in net assets, governmental activities and business-type activities. These tables provide additional information, but are not part of the basic financial statements. However these tables are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These tables were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.



Balestra, Harr & Scherer, CPAs, Inc.

June 29, 2012

Village of Arcanum
Darke County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

This discussion and analysis of the Village's financial performance provides an overall review of the Village's financial activities for the year ended December 31, 2011, within the limitations of the Village's cash basis of 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 2011 are as follows:

Net assets of governmental activities increased \$110,754 or 8 percent.

The Village's general receipts for governmental activities are comprised substantially of property and local income taxes. These receipts represent 51 percent of the total cash received for governmental activities during the year.

Net assets of business-type activities decreased \$127,954 or 4 percent from the prior year due to cash receipts, transfers, and advances in excess of cash disbursements.

For 2011, total governmental funds had cash receipts and other financing receipts of \$1,091,905 and cash disbursements and other financing disbursements of \$981,151. The greatest change within governmental funds occurred within the General Fund.

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 the cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. 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.

Village of Arcanum
Darke County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Reporting the Village as a Whole

The statement of net assets and the statement of activities reflect how the Village did financially during 2011, within the limitations of cash basis accounting. The statement of net assets presents the cash balances 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 recipients 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 non-financial 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

State and federal grants, local income taxes 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 has three main business-type activities: water, sewer and electric operations. Business-type activities are financed by a fee charged to the customers receiving the services.

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 non major 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 and the State Highway Fund.

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 activity is reported as an enterprise fund. The Village presents three major enterprise funds: the Water, Sewer, and Electric Funds.

Village of Arcanum
Darke County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

The Village as a Whole

Table 1 provides a summary of the Village's net assets for 2011 as compared to 2010.

(Table 1)

Net Assets
Governmental Activities

	2011	2010*
Assets		
Current Assets	\$ 1,554,946	\$ 1,444,192
Total Assets	\$ 1,554,946	\$ 1,444,192
Net Assets		
Restricted for:		
Capital Projects	\$ 57,524	\$ 61,914
Debt Service	16,861	10,168
State Highway	222,113	219,254
Street Repair	103,968	154,405
Other Purposes	191,246	188,454
Unrestricted	963,234	809,997
Total Net Assets	\$ 1,554,946	\$ 1,444,192

Business-type Activities

	2011	2010
Assets		
Current Assets	\$ 2,798,388	\$ 2,926,342
Total Assets	\$ 2,798,388	\$ 2,926,342
Net Assets		
Unrestricted	\$ 2,798,388	\$ 2,926,342
Total Net Assets	\$ 2,798,388	\$ 2,926,342

* As restated, see Note 14 IRUadditional information.

For 2011, total governmental activities net assets increased \$110,754 due to an increase in municipal income tax receipts as a result of first year collections of the increased tax. Total business-type net assets decreased \$127,954 as result of a decrease in loan proceeds received during 2011, which was partially offset by a decrease in expenditures.

Village of Arcanum
Darke County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Table 2 reflects the changes in net assets for 2011 as compared to 2010.

(Table 2)
Changes in Net Assets
Governmental Activities

	<u>2011</u>	<u>2010</u>
Cash Receipts:		
Program Receipts:		
Charges for Services and Sales	\$ 79,794	\$ 71,374
Operating Grants and Contributions	256,728	246,100
Capital Grants and Contributions	-	121,466
Total Program Receipts	<u>336,522</u>	<u>438,940</u>
General Receipts:		
Property Taxes	109,171	126,951
Municipal Income Taxes	394,566	257,635
Grants and Entitlements Not Restricted to Specific Programs	88,988	19,602
Proceeds from OPWC Loans	-	250,000
Interest	34,805	47,789
Miscellaneous	21,927	22,737
Total General Receipts	<u>649,457</u>	<u>724,714</u>
Total Receipts	<u>985,979</u>	<u>1,163,654</u>
Cash Disbursements:		
Security of Persons and Property	317,861	315,177
Public Health Services	11,156	10,922
Leisure Time Activities	40,360	39,203
Community Environment	94,185	94,380
Transportation	104,445	92,800
General Government	158,234	170,129
Capital Outlay	122,842	719,942
Debt Service:		
Principal	49,330	42,017
Interest	2,268	3,331
Total Disbursements	<u>900,681</u>	<u>1,487,901</u>
Excess of Receipts Over (Under) Disbursements	85,298	(324,247)
Transfers and Advances:		
Transfers	17,956	73,649
Advances	7,500	(4,500)
Increase (Decrease) in Net Assets	110,754	(255,098)
Net Assets, January 1*	<u>1,444,192</u>	<u>1,699,290</u>
Net Assets, December 31	<u>\$ 1,554,946</u>	<u>\$ 1,444,192</u>

* As restated, see Note 14 for additional information.

Program cash receipts represented \$336,522 or 34 percent of total cash receipts for 2011 and are primarily comprised of restricted intergovernmental receipts such as motor vehicle license and gas tax money, building permits and inspection fees, and charges for services.

Village of Arcanum
Darke County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

General receipts represented \$649,457 or 66 percent of the Village's total cash receipts for 2011. For 2011, 17 percent of general cash receipts are property taxes and 61 percent are local income tax. Interest makes up 5 percent of the Village's general cash receipts. Other receipts are very insignificant and somewhat unpredictable revenue sources. The decrease to capital grants and contributions is due to the completion of the West George Street project. The increase to municipal income taxes is due to the collection of the additional ½% tax. The increase to grants and entitlements not restricted for specific purposes is due to an increase in estate tax revenue during the current year. The decrease to proceeds from OPWC loans is due to monies received in the prior year.

Disbursements for general government represent the overhead costs of running the Village and the support services provided for the other Village activities. These include the costs of Council, the Village Fiscal Officer and income tax departments, as well as internal services such as payroll and purchasing. The decrease to capital outlay is from a direct result of the proceeds from OPWC loans received by the Village in the prior year.

Security of persons and property are the costs of police law enforcement salaries and benefits, police and fire protection; leisure time activities are the costs of maintaining the park and the swimming pool; and transportation is the cost of maintaining the roads.

(Table 3)
Changes in Net Assets
Business-Type Activities

	2011	2010
Cash Receipts:		
Program Receipts:		
Charges for Services and Sales	\$ 3,287,586	\$ 3,225,386
Total Program Receipts	3,287,586	3,225,386
General Receipts:		
Other Operating Cash Receipts	116,777	83,236
Other Non-operating Cash Receipts	25,754	21,637
Proceeds from Various Loans and Debt Issues	93,798	885,305
Total General Receipts	236,329	990,178
Total Receipts	3,523,915	4,215,564
Cash Disbursements:		
Water	310,660	340,548
Sewer	739,649	1,465,159
Electric	2,320,916	1,997,559
Other Enterprise	255,188	261,440
Total Disbursements	3,626,413	4,064,706
Excess of Receipts Over (Under) Disbursements	(102,498)	150,858
Transfers and Advances:		
Transfers	(17,956)	(73,649)
Advances	(7,500)	4,500
Increase (Decrease) in Net Assets	(127,954)	81,709
Net Assets, January 1	2,926,342	2,844,633
Net Assets, December 31	\$ 2,798,388	\$ 2,926,342

Decreases to proceeds from loans and sewer disbursements are due to decreases in monies received from OWDA and OPWC for construction projects.

Village of Arcanum
Darke County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Governmental Activities

If you look at the Statement of Activities on page 12 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. For 2011, the major program disbursements for governmental activities are for security of persons and property and general government which account for 35 and 18 percent of all governmental disbursements, respectively. 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 the total cost of services and the net cost is presented in Table 4.

(Table 4)

	Governmental Activities			
	Total Cost Of Services	Net Cost of Services	Total Cost Of Services	Net Cost of Services
	2011	2011	2010	2010
Security of Persons and Property	\$ 317,861	\$ 218,218	\$ 315,177	\$ 235,634
Public Health Services	11,156	8,658	10,922	8,519
Leisure Time Activities	40,360	13,931	39,203	25,927
Community Environment	94,185	74,078	94,380	73,918
Transportation	104,445	29,752	92,800	58,785
General Government	158,234	124,453	170,129	133,244
Capital Outlay	122,842	43,471	719,942	467,586
Debt Service:				
Principal	49,330	49,330	42,017	42,017
Interest	2,268	2,268	3,331	3,331
Total Cash Disbursements	<u>\$ 900,681</u>	<u>\$ 564,159</u>	<u>\$ 1,487,901</u>	<u>\$ 1,048,961</u>

The dependence upon property and income tax receipts, interest and debt proceeds is apparent as 72 percent of governmental activities were supported through general cash receipts for 2011.

Village of Arcanum
Darke County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Business-type Activities

The net cost of business-type activities is as follows:

(Table 5)

	Business-Type Activities			
	Total Cost Of Services	Net Cost of Services	Total Cost Of Services	Net Cost of Services
	2011	2011	2010	2010
Water	\$ 310,660	\$ 13,206	\$ 340,548	\$ 54,380
Sewer	739,649	207,271	1,465,159	961,805
Electric	2,320,916	108,837	1,997,559	(211,345)
Other Proprietary	255,188	9,513	261,440	34,480
Total Cash Disbursements	<u>\$ 3,626,413</u>	<u>\$ 338,827</u>	<u>\$ 4,064,706</u>	<u>\$ 839,320</u>

Program cash receipts provided for 91 percent of the cost of business-type activities in 2011.

The Village's Funds

The governmental fund most affected by the increase in cash and cash equivalents was the General Fund primarily due to an increase to municipal income tax receipts. The General Fund balance increased \$153,237, while the State Highway Fund balance increased \$2,859.

The Water Fund balance increased \$42,717. The Sewer Fund balance decreased \$92,152. The Electric Fund balance decreased \$87,395.

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 2011, the Village amended its General Fund budget. Final budgeted receipts decreased \$90,000 due to a decrease in estimates for municipal income tax receipts. Final budgeted appropriations increased due to transfers out to enterprise funds. Actual receipts and other financing sources were \$256,770 higher than final budgeted receipts primarily due to intergovernmental receipts being higher than anticipated.

Final budgeted cash disbursements and other financing uses were \$126,586 higher than final actual cash disbursements and other financing uses primarily due to decreases in security of persons and property and general government disbursements being less than anticipated.

Capital Assets and Debt Administration

Capital Assets

The Village does not currently keep track of its capital assets and infrastructure and they are not reported in the basic financial statements. Capital outlay is recorded as disbursements in the accompanying financial statements and amounted to \$122,842 and \$506,661 in the governmental funds and proprietary funds, respectively.

Debt

At December 31, 2011 the Village's outstanding debt included \$7,231,447 in lease purchases and loans issued for improvements to buildings, equipment and infrastructure. The loans for infrastructure are due to EPA mandates to separate the sanitary and sewer lines. In accordance with the cash basis of accounting, this debt is not reported in the basic financial statements. See Note 6 to the basic financial statements for more information regarding the Village's debt.

Village of Arcanum
Darke County, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2011
Unaudited

Current Issues

The challenge for the Village 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.

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 Carolyn Robinson, Fiscal Officer, Village of Arcanum, 104 West South Street, Arcanum, Ohio 45304.

Village of Arcanum
Darke County Ohio
Statement of Net Assets - Cash Basis
As of December 31, 2011

	Governmental Activities	Business - Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,554,946	\$ 2,798,388	\$ 4,353,334
<i>Total Assets</i>	<u>\$ 1,554,946</u>	<u>\$ 2,798,388</u>	<u>\$ 4,353,334</u>
Net Assets			
Restricted for:			
Capital Projects	\$ 57,524	\$ -	\$ 57,524
Debt Service	16,861	-	16,861
State Highway	222,113	-	222,113
Street Repair	103,968	-	103,968
Other Purposes	191,246	-	191,246
Unrestricted	963,234	2,798,388	3,761,622
<i>Total Net Assets</i>	<u>\$ 1,554,946</u>	<u>\$ 2,798,388</u>	<u>\$ 4,353,334</u>

See accompanying notes to the basic financial statements.

Village of Arcanum
Darke County, Ohio
Statement of Activities - Cash Basis
For the Year Ended December 31, 2011

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities						
Security of Persons and Property	\$ 317,861	\$ 16,770	\$ 82,873	\$ (218,218)	\$ -	\$ (218,218)
Public Health Services	11,156	94	2,404	(8,658)	-	(8,658)
Leisure Time Activities	40,360	8,904	17,525	(13,931)	-	(13,931)
Community Environment	94,185	308	19,799	(74,078)	-	(74,078)
Transportation	104,445	26,143	48,550	(29,752)	-	(29,752)
General Government	158,234	518	33,263	(124,453)	-	(124,453)
Capital Outlay	122,842	27,057	52,314	(43,471)	-	(43,471)
Debt Service:						
Principal	49,330	-	-	(49,330)	-	(49,330)
Interest	2,268	-	-	(2,268)	-	(2,268)
<i>Total Governmental Activities</i>	<u>900,681</u>	<u>79,794</u>	<u>256,728</u>	<u>(564,159)</u>	<u>-</u>	<u>(564,159)</u>
Business Type Activities						
Water	310,660	297,454	-	-	(13,206)	(13,206)
Sewer	739,649	532,378	-	-	(207,271)	(207,271)
Electric	2,320,916	2,212,079	-	-	(108,837)	(108,837)
Other Enterprise	255,188	245,675	-	-	(9,513)	(9,513)
<i>Total Business Type Activities</i>	<u>3,626,413</u>	<u>3,287,586</u>	<u>-</u>	<u>-</u>	<u>(338,827)</u>	<u>(338,827)</u>
Total Primary Government	<u>\$ 4,527,094</u>	<u>\$ 3,367,380</u>	<u>\$ 256,728</u>	<u>(564,159)</u>	<u>(338,827)</u>	<u>(902,986)</u>
General Receipts, Transfers and Advances						
Property Taxes Levied for:						
General Purposes				61,133	-	61,133
Garbage Levy				8,466	-	8,466
Police Pension				9,477	-	9,477
Fire Equipment Levy				30,095	-	30,095
Municipal Income Taxes				394,566	-	394,566
Grants and Entitlements not Restricted to Specific Programs				88,988	-	88,988
Other Operating Cash Receipts				-	116,777	116,777
Other Non-Operating Cash Receipts				-	25,754	25,754
Proceeds from OWDA Loans				-	60,969	60,969
Proceeds from OPWC Loans				-	32,829	32,829
Interest				34,805	-	34,805
Miscellaneous				21,927	-	21,927
Transfers				17,956	(17,956)	-
Advances				7,500	(7,500)	-
<i>Total General Receipts, Transfers and Advances</i>				<u>674,913</u>	<u>210,873</u>	<u>885,786</u>
Change in Net Assets				110,754	(127,954)	(17,200)
<i>Net Assets Beginning of Year - As Restated</i>				<u>1,444,192</u>	<u>2,926,342</u>	<u>4,370,534</u>
<i>Net Assets End of Year</i>				<u>\$ 1,554,946</u>	<u>\$ 2,798,388</u>	<u>\$ 4,353,334</u>

See accompanying notes to the basic financial statements.

Village of Arcanum
Darke County, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
As of December 31, 2011

	<u>General</u>	<u>State Highway</u>	<u>All Other Governmental</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 963,234	\$ 222,113	\$ 369,599	\$ 1,554,946
<i>Total Assets</i>	<u>\$ 963,234</u>	<u>\$ 222,113</u>	<u>\$ 369,599</u>	<u>\$ 1,554,946</u>
Fund Balances				
Restricted	\$ -	\$ 222,113	\$ 369,599	\$ 591,712
Unassigned	963,234	-	-	963,234
<i>Total Fund Balances</i>	<u>\$ 963,234</u>	<u>\$ 222,113</u>	<u>\$ 369,599</u>	<u>\$ 1,554,946</u>

See accompanying notes to the basic financial statements.

**Village of Arcanum
Darke County, Ohio**
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances
Governmental Funds
For the Year Ended December 31, 2011

	General	State Highway	All Other Governmental	Total Governmental Funds
Cash Receipts				
Property Taxes	\$ 61,133	\$ -	\$ 48,038	\$ 109,171
Municipal Income Taxes	394,566	-	-	394,566
Intergovernmental	195,611	7,450	142,655	345,716
Charges for Services	1,230	-	78,054	79,284
Fines, Licenses and Permits	510	-	-	510
Earnings on Investments	24,097	3,444	7,264	34,805
Miscellaneous	18,664	-	3,263	21,927
<i>Total Cash Receipts</i>	<u>695,811</u>	<u>10,894</u>	<u>279,274</u>	<u>985,979</u>
Cash Disbursements				
Current:				
Security of Persons and Property	253,398	-	64,463	317,861
Public Health Services	10,923	-	233	11,156
Leisure Time Activities	4,852	-	35,508	40,360
Community Environment	94,185	-	-	94,185
Transportation	-	1,285	103,160	104,445
General Government	158,234	-	-	158,234
Capital Outlay	10,117	6,750	105,975	122,842
Debt Service:				
Principal Retirement	11,321	-	38,009	49,330
Interest and Fiscal Charges	-	-	2,268	2,268
<i>Total Cash Disbursements</i>	<u>543,030</u>	<u>8,035</u>	<u>349,616</u>	<u>900,681</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>152,781</u>	<u>2,859</u>	<u>(70,342)</u>	<u>85,298</u>
Other Financing Sources (Uses)				
Transfers In	73,426	-	25,000	98,426
Transfers Out	(80,470)	-	-	(80,470)
Advances In	7,500	-	-	7,500
<i>Total Other Financing Sources (Uses)</i>	<u>456</u>	<u>-</u>	<u>25,000</u>	<u>25,456</u>
<i>Net Change in Fund Balances</i>	153,237	2,859	(45,342)	110,754
<i>Fund Balances Beginning of Year - As Restated</i>	<u>809,997</u>	<u>219,254</u>	<u>414,941</u>	<u>1,444,192</u>
<i>Fund Balances End of Year</i>	<u>\$ 963,234</u>	<u>\$ 222,113</u>	<u>\$ 369,599</u>	<u>\$ 1,554,946</u>

See accompanying notes to the basic financial statements.

Village of Arcanum
Darke County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budgetary Basis
For the Year Ended December 31, 2011

	General Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<u>Receipts:</u>				
Property Taxes	\$ 65,500	\$ 65,500	\$ 61,133	\$ (4,367)
Municipal Income Taxes	300,722	210,722	394,566	183,844
Intergovernmental	114,000	114,000	195,611	81,611
Charges for Services	2,155	2,155	1,230	(925)
Fines, Licenses and Permits	2,090	2,090	510	(1,580)
Earnings on Investments	25,000	25,000	24,097	(903)
Miscellaneous	20,000	20,000	18,664	(1,336)
Total Receipts	529,467	439,467	695,811	256,344
<u>Disbursements:</u>				
Current:				
Security of Persons and Property	283,050	283,661	253,398	30,263
Public Health Services	10,982	10,982	10,923	59
Leisure Time Activities	37,100	11,100	4,852	6,248
Community Environment	126,310	128,962	94,185	34,777
General Government	181,676	201,365	158,234	43,131
Capital Outlay	-	12,225	10,117	2,108
Debt Service:				
Principal Retirement	11,321	11,321	11,321	-
Total Disbursements	650,439	659,616	543,030	116,586
Excess of Receipts Over (Under) Disbursements	(120,972)	(220,149)	152,781	372,930
<u>Other Financing Sources and Uses:</u>				
Transfers In	73,000	73,000	73,426	426
Advances In	7,500	7,500	7,500	-
Transfers Out	-	(90,470)	(80,470)	10,000
Total Other Financing Sources and Uses	80,500	(9,970)	456	10,426
Net Change in Fund Balance	(40,472)	(230,119)	153,237	383,356
Fund Balance Beginning of Year	808,616	808,616	808,616	-
Fund Balance End of Year	<u>\$ 768,144</u>	<u>\$ 578,497</u>	<u>\$ 961,853</u>	<u>\$ 383,356</u>

See accompanying notes to the basic financial statements.

Village of Arcanum
Darke County, Ohio
Statement of Receipts, Disbursements and Changes
In Fund Balance - Budget and Actual - Budgetary Basis
For the Year Ended December 31, 2011

	State Highway Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<u>Receipts:</u>				
Intergovernmental	\$ 6,812	\$ 6,812	\$ 7,450	\$ 638
Earnings on Investments	3,800	3,800	3,444	(356)
Total Receipts	10,612	10,612	10,894	282
<u>Disbursements:</u>				
Transportation	3,000	3,000	1,285	1,715
Capital Outlay	1,000	7,650	6,750	900
Total Disbursements	4,000	10,650	8,035	2,615
Net Change in Fund Balance	6,612	(38)	2,859	2,897
Fund Balance Beginning of Year	219,254	219,254	219,254	-
Fund Balance End of Year	<u>\$ 225,866</u>	<u>\$ 219,216</u>	<u>\$ 222,113</u>	<u>\$ 2,897</u>

See accompanying notes to the basic financial statements.

Village of Arcanum
Darke County, Ohio
Statement of Fund Net Assets - Cash Basis
Proprietary Funds
As of December 31, 2011

	Business-Type Activities - Enterprise				
	Water	Sewer	Electric	Other Non-Major Enterprise Funds	Total Enterprise Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 107,596	\$ 1,095,253	\$ 1,359,693	\$ 235,846	\$ 2,798,388
<i>Total Assets</i>	<u>\$ 107,596</u>	<u>\$ 1,095,253</u>	<u>\$ 1,359,693</u>	<u>\$ 235,846</u>	<u>\$ 2,798,388</u>
Fund Net Assets - Unrestricted	<u>\$ 107,596</u>	<u>\$ 1,095,253</u>	<u>\$ 1,359,693</u>	<u>\$ 235,846</u>	<u>\$ 2,798,388</u>

See accompanying notes to the basic financial statements.

Village of Arcanum
Darke County, Ohio
Statement of Cash Receipts
Disbursements and Changes in Fund Net Assets - Cash Basis
Proprietary Funds
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise				
	Water	Sewer	Electric	Other Non-Major Enterprise Funds	Total Enterprise Funds
Operating Cash Receipts					
Charges for Services	\$ 297,454	\$ 532,378	\$ 2,212,079	\$ 245,675	\$ 3,287,586
Other Operating Receipts	12,883	8,891	94,868	135	116,777
<i>Total Operating Cash Receipts</i>	<u>310,337</u>	<u>541,269</u>	<u>2,306,947</u>	<u>245,810</u>	<u>3,404,363</u>
Operating Cash Disbursements					
Personal Services	145,221	133,704	376,131	20,129	675,185
Travel Transportation	6,426	6,596	15,726	-	28,748
Contractual Services	15,043	19,880	1,575,647	181,457	1,792,027
Supplies and Materials	53,661	37,125	64,710	18,192	173,688
Capital Outlay	26,568	206,196	257,716	16,181	506,661
<i>Total Operating Cash Disbursements</i>	<u>246,919</u>	<u>403,501</u>	<u>2,289,930</u>	<u>235,959</u>	<u>3,176,309</u>
<i>Excess of Operating Cash Receipts Over (Under) Operating Cash Disbursements</i>	63,418	137,768	17,017	9,851	228,054
Non-Operating Cash Receipts (Cash Disbursements)					
Other Non-Operating Receipts	-	-	-	25,754	25,754
Other Non-Operating Disbursements	-	-	(30,986)	(19,229)	(50,215)
Proceeds of OWDA Loans	-	60,969	-	-	60,969
Proceeds of OPWC Loans	-	32,829	-	-	32,829
Principal Payments	(60,458)	(211,012)	-	-	(271,470)
Interest and Fiscal Charges	(3,283)	(125,136)	-	-	(128,419)
<i>Total Non-Operating Cash Receipts (Cash Disbursements)</i>	<u>(63,741)</u>	<u>(242,350)</u>	<u>(30,986)</u>	<u>6,525</u>	<u>(330,552)</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements before Transfers and Advances</i>	(323)	(104,582)	(13,969)	16,376	(102,498)
Transfers and Advances					
Transfers Out	-	-	(73,426)	-	(73,426)
Transfers In	43,040	12,430	-	-	55,470
Advances Out	-	-	-	(7,500)	(7,500)
<i>Total Transfers and Advances</i>	<u>43,040</u>	<u>12,430</u>	<u>(73,426)</u>	<u>(7,500)</u>	<u>(25,456)</u>
<i>Change in Net Assets</i>	42,717	(92,152)	(87,395)	8,876	(127,954)
<i>Net Assets Beginning of Year</i>	<u>64,879</u>	<u>1,187,405</u>	<u>1,447,088</u>	<u>226,970</u>	<u>2,926,342</u>
<i>Net Assets End of Year</i>	<u>\$ 107,596</u>	<u>\$ 1,095,253</u>	<u>\$ 1,359,693</u>	<u>\$ 235,846</u>	<u>\$ 2,798,388</u>

See accompanying notes to the basic financial statements.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

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 and sewer utilities, refuse services, park operations (leisure time activities), and police and fire services.

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

Primary Government The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Village. The reporting entity is comprised of only the primary government. No component units or other organizations were included to ensure that the financial statements are not misleading.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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). Accounting principles generally accepted in the United States of America 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 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 business-type activities and to its proprietary funds. Following are 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, except for fiduciary funds. 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 balances 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 cash receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operating or capital requirements of a particular program.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General cash 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 the 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 proprietary 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 non-operating.

B. Fund Accounting

The Village uses funds to maintain its financial records during the fiscal 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 Village's funds 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 following are the Village's major governmental funds:

General Fund – This fund is the operating fund of the Village and is used to account for 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.

State Highway Fund – This fund accounts monies received from the State to maintain state highways within the Village. The primary source of this fund is intergovernmental monies.

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 either enterprise or internal service. The Village has no internal service 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 as follows:

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary Funds (Continued)

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. The primary source of revenue for this fund is charges for services for water usage.

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. The primary source of revenue for this fund is charges for services for sewer usage.

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. The primary source of revenue for this fund is charges for services for electrical usage.

C. Basis of Accounting

These financial statements are prepared using the cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when 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 tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount the Village Council may appropriate.

The appropriations 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 object level within each function by fund.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

The certificate of estimated resources may be amended during the year if projected increases or decreases in receipts are identified by the Village Fiscal Officer. 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 certificate of estimated resources in effect at the time the final appropriations were passed by the Village Council.

The appropriations 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”.

During 2011, the Village’s investments were limited to certificates of deposit and STAR Ohio.

For reporting purposes, the Village considers “Cash and Cash Equivalents” to be cash on hand, demand deposits, and all investments held by the Village with a maturity date less than or equal to three months from the date of purchase.

The Village has invested in the State Treasury Asset Reserve of Ohio (STAR Ohio) during 2011. STAR Ohio is an investment pool managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price, which is the price the investment could be sold for on December 31, 2011.

Following Ohio statutes, the Village has specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund, the State Highway Fund, and all other governmental funds during 2011 amounted to \$24,097, \$3,444 and \$7,264, respectively.

F. Capital Assets

Acquisitions of property, plant, and equipment (capital assets) are recorded as disbursements when paid. The accompanying basic financial statements do not report these items as assets.

G. Accumulated Leave

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

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. 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 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

I. 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.

J. Net Assets

Net assets represent the difference between assets and liabilities. However, under the cash basis of accounting no liabilities are recorded. Therefore, Equity in Pooled Cash and Cash Equivalents equals Net Assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for other purposes reflects balances in funds that account for grant monies.

The Village applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The government-wide statement of net assets reports \$591,712 in restricted net assets, none of which are restricted by enabling legislation.

K. Fund Balance

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

Nonspendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in the spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as 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 The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Village Council. Those committed amounts cannot be used for any other purpose unless the Village Council removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the Village for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the Village Council.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Fund Balance (Continued)

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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.

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 Balances – Budget and Actual – Budgetary Basis presented for the General Fund and State Highway Fund are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference(s) between the budgetary basis and the cash basis are outstanding year end encumbrances which are treated as cash disbursements (budgetary basis) rather than as a reservation of fund balance (cash basis) (and outstanding year end advances are treated as an other financing source or use (budgetary basis) rather than as an interfund receivable or payable (cash basis)). There were no outstanding encumbrances at year end. As part of the Governmental Accounting Standards Board Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions”, certain funds that were previously reported as an agency are considered part of the General Fund on a cash basis. This includes the Unclaimed Monies Fund. This fund was excluded from the budgetary presentation for the General 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 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 securities issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

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);
8. Securities lending agreements in which the Village lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the Village's total average portfolio; and
10. Bankers' acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the Village's average portfolio.

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.

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency of instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. The Village's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateral of public funds.

As of December 31, 2011, the Village's bank balance of \$4,268,590 was either covered by FDIC or collateralized by the financial institution's public entity deposit pools in the manner described above.

As of December 31, 2011, the Village had \$600 in undeposited cash which is reported as part of equity in pooled cash and cash equivalents. Of this amount, \$500 was for the purpose of making change and \$100 was for petty cash.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 4. DEPOSITS AND INVESTMENTS (Continued)

Investments: As of December 31, 2011, the Village had the following investments and maturities:

	2011	
	Fair Value	Weighted Average Maturity (Yrs.)
STAR Ohio	\$ 244,234	< One Year
Total Fair Value	\$ 244,234	

Interest rate risk – In accordance with the investment policy, the Village manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit risk – Credit risk is the risk than an issuer or other counterparty to an investment will not fulfill its obligations. The Village’s investment policy seeks to minimize credit risk by limiting investments to U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available, U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value, certificates of deposit and other evidences of deposit at financial institutions, and bankers acceptances. The Village limits their investments to STAR Ohio. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The Village’s investment policy allows investments as outlined above. The Village’s investment policy does not limit the amount it may invest in a single issuer. The Village has invested 100% in STAR Ohio.

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village’s investment policy does not address custodial credit risk beyond the requirements of the Ohio Revised Code. All of the Village’s securities are either insured and registered in the name of the Village or at least registered in the name of the Village.

NOTE 5. PROPERTY TAX

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 2011 represent the collection of 2010 taxes. Real property taxes received in 2011 were levied after October 1, 2010, on the assessed values as of January 1, 2010, 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 2011 represent the collection of 2010 taxes. Public utility real and tangible personal property taxes received in 2011 became a lien on December 31, 2009, were levied after October 1, 2010, 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.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 5. PROPERTY TAX (Continued)

The full tax rate for all Village operations for the year ended December 31, 2011, was \$6.30 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2011 property tax receipts were based are as follows:

Real Property	
Real Estate – Residential/Agricultural	\$29,447,240
Real Estate – All Other	3,063,900
Public Utility – Personal Property	262,320
Total Assessed Value	\$32,773,460

NOTE 6. DEBT

Debt outstanding at December 31, 2011 was as follows:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011	Due in One Year
<u>Governmental Activities</u>					
Lease Purchase-Factory Building	\$ 113,215	\$ -	\$ 11,321	\$ 101,894	\$ 11,321
OPWC CK38M W. George Street	243,750	-	12,500	231,250	12,500
Lease Purchase-1988 Pierce					
Heavy Duty Rescue Truck	52,127	-	25,509	26,618	26,618
Total Governmental Activities	409,092	-	49,330	359,762	50,439
<u>Business-Type Activities</u>					
OWDA Loan 3770	2,427,264	-	89,098	2,338,166	90,440
OWDA Loan 3771	943,761	-	23,069	920,692	24,199
OWDA Loan 4565	166,441	-	8,923	157,518	9,102
OWDA Loan 5007	2,233,579	60,969	81,345	2,213,203	-
OPWC Loan CK619	75,369	-	21,535	53,834	21,535
OPWC Phase II CK06F	195,000	-	15,000	180,000	15,000
OPWC CK30C NW Storm	23,750	-	2,500	21,250	2,500
OPWC Phase III CK02L	744,193	32,829	-	777,022	-
Artesian of Pioneer/Water Media	240,000	-	30,000	210,000	30,000
Total Business-Typ Activities	7,049,357	93,798	271,470	6,871,685	192,776
Total Debt	\$ 7,458,449	\$ 93,798	\$ 320,800	\$ 7,231,447	\$ 243,215

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 6. DEBT (Continued)

The first 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 over 15 years with the final payment March 14, 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 second lease purchase agreement relates to the purchase of a 1988 Pierce Heavy Duty Rescue Truck. The original amount of the lease purchase agreement was \$100,000. The lease to purchase is being paid in annual installments of \$27,776 with an interest rate of 4.5%. The lease purchase agreement is for four years with the final payment May 27, 2012. The lease purchase agreement is being paid from the Fire Levy 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 in annual installments of \$68,471, including principal and interest at 4.84% with the final payment December 31, 2033. 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. The interest rate is 1.5%. This project is still ongoing therefore the loan has not been finalized. No amortization schedule has been prepared by the OWDA. Draws of \$60,969 were made on the available balance during the year.

The Ohio Public Works Commission (OPWC) Loan CK619 loan relates to the construction of a new water tower. The OPWC has approved an interest free loan of \$489,000 to the Village for this project. The loan is being repaid in annual installments of \$21,535 over 20 years, with the final payment July 1, 2014. The loan is collateralized by water receipts and is being repaid from the Water Fund.

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.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 6. DEBT (Continued)

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. This project is still ongoing as of December 31, 2010. Draws in the amount of \$32,829 were made on the available balance during the year. The loan is collateralized by the water and sewer receipts and is being repaid from the Sewer Fund.

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 is being repaid from the Water Fund.

Amortization of the above debt is scheduled as follows:

Year Ending December 30,	Business-Type Activities		
	OWDA Loans *		
	Principal	Interest	Total
2012	\$ 123,741	\$ 82,111	\$ 205,852
2013	126,471	79,382	205,853
2014	129,282	76,568	205,850
2015	132,180	73,672	205,852
2016	135,168	70,684	205,852
2017-2021	724,000	305,260	1,029,260
2022-2026	814,215	215,045	1,029,260
2027-2031	856,557	111,678	968,235
2032-2034	374,762	12,525	387,287
Total	<u>\$ 3,416,376</u>	<u>\$ 1,026,925</u>	<u>\$ 4,443,301</u>

Year Ending December 30,	OPWC Loans **		
	Principal	Interest	Total
2012	\$ 39,035	\$ -	\$ 39,035
2013	39,035	-	39,035
2014	28,264	-	28,264
2015	17,500	-	17,500
2016	17,500	-	17,500
2017-2021	83,750	-	83,750
2022-2023	30,000	-	30,000
Total	<u>\$ 255,084</u>	<u>\$ -</u>	<u>\$ 255,084</u>

Year Ending December 30,	Artesian-Pioneer		
	Principal	Interest	Total
2012	\$ 30,000	\$ -	\$ 30,000
2013	30,000	-	30,000
2014	30,000	-	30,000
2015	30,000	-	30,000
2016	30,000	-	30,000
2017-2018	60,000	-	60,000
Total	<u>\$ 210,000</u>	<u>\$ -</u>	<u>\$ 210,000</u>

Year Ending December 30,	Governmental Activities		
	OPWC Loans		
	Principal	Interest	Total
2012	\$ 12,500	\$ -	\$ 12,500
2013	12,500	-	12,500
2014	12,500	-	12,500
2015	12,500	-	12,500
2016	12,500	-	12,500
2017-2021	62,500	-	62,500
2022-2026	62,500	-	62,500
2027-2031	43,750	-	43,750
2032-2034	-	-	-
Total	<u>\$ 231,250</u>	<u>\$ -</u>	<u>\$ 231,250</u>

Year Ending December 30,	Lease Purchase - 1988 Pierce Fire Truck		
	Principal	Interest	Total
2012	\$ 26,618	\$ 1,158	\$ 27,776
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
2022-2023	-	-	-
Total	<u>\$ 26,618</u>	<u>\$ 1,158</u>	<u>\$ 27,776</u>

Year Ending December 30,	Lease Purchase - Factory Building		
	Principal	Interest	Total
2012	\$ 11,321	\$ -	\$ 11,321
2013	11,321	-	11,321
2014	11,321	-	11,321
2015	11,321	-	11,321
2016	11,321	-	11,321
2017-2020	45,289	-	45,289
Total	<u>\$ 101,894</u>	<u>\$ -</u>	<u>\$ 101,894</u>

* OWDA loan 5007 has not been finalized and is not included in the above amortization table. Therefore, the total debt shown on the amortization table does not equal the total outstanding debt as shown above.

** OPWC loan CK02L has not been finalized and is not included in the above amortization table.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 7. RETIREMENT SYSTEMS

The Village's full time law enforcement officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other full-time and part-time employees (excluding most firefighters per OPERS rules) belong to the Public Employees Retirement System of Ohio (OPERS).

Ohio Public Employees Retirement System

A. The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans as described below:

- 1) The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan.
- 2) The Member-Directed Plan (MD) – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
- 3) The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

B. OPERS provides retirement, disability, and survivor and death benefits and annual cost-of-living adjustments to qualifying members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits.

C. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

D. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

E. The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and employer contribution rates were consistent across all three plans.

The member contribution rates were 10.0% for 2011, 2010, and 2009 for the Village.

The employer contribution rates were 14.0% for 2011, 2010, and 2009 of covered payroll for the Village.

The Village's contributions to OPERS for the years ended December 31, 2011, 2010, and 2009 were \$99,472, \$96,639, and \$90,925, respectively, which were equal to the required contributions for those years.

Ohio Police and Fire Pension Fund

The Village contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 7. RETIREMENT SYSTEMS (Continued)

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24% respectively for police officers and firefighters. The Village's contributions to OP&F for the years ending December 31, 2011, 2010 and 2009 were \$27,606, \$27,735, and \$31,878, respectively; or 100% of the required contributions for those years.

NOTE 8. POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

- A. Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan (TP) – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) – a defined contribution plan; and the Combined Plan (CO) – a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the TP and the CO Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by writing OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post-retirement health care benefits.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, 2010, and 2009, the Village contributed at 14% of covered payroll. The Ohio Revised Code currently limits the employer contribution rate not to exceed 14% of covered payroll. Active members do not make contributions to the OPEB Plan.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 8. POSTEMPLOYMENT BENEFITS (Continued)

For 2010 (the most current information available), the employer contributions allocated to the Traditional plan was 5.5% from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010 and for the Combined Plan was 4.73% from January 1 through February 28, 2010 and 4.23% from March 1 through December 31, 2010. For 2009, the employer contributions allocated to the health care plan was 7.0% of covered payroll from January 1 through March 31, 2009 and 5.5% from April 1 through December 31, 2009. For 2008, the employer contributions allocated to the health care plan was 7.0%. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

- C. The employer contributions that were used to fund post-employment benefits were \$36,114 for 2011, \$37,570 for 2010 and \$38,159 for 2009, which were equal to the required contributions for each year.
- D. The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased on January 1 each year from 2006 to 2008. These rate increases allowed additional funds to be allocated to the health care plan.

Ohio Police and Fire Pension Fund

The Village contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing multiple-employer defined postemployment healthcare plan administered by OP&F. OP&F provides healthcare benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the Plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F (defined benefit pension plan). Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.50% and 24.00% of covered payroll for police and fire employers, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.50% of covered payroll for police employer units and 24.00% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 8. POSTEMPLOYMENT BENEFITS (Continued)

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2010 (the most recent year available), the employer contribution allocated to the healthcare plan was 6.75% of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F board of trustees also is authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Village of Arcanum's contributions that were used to fund post-employment benefits were \$9,552, \$7,794, and \$13,203, for 2011, 2010 and 2009, respectively, which were equal to the required contributions for each year.

NOTE 9. RISK MANAGEMENT

Risk Pool Membership

The Village is exposed to various risks of loss due to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village belongs to the Ohio Government Risk Management Plan (the Plan), an unincorporated non-profit association with approximately 600 governmental entity members providing a formalized, jointly administered self-insurance risk management program and other administrative services.

Pursuant to §2744.081 of the Ohio Revised Code, the Plan is deemed a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverage, modified for each member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the member's deductible.

The Plan uses its own policies and reinsures with A-VII or better rated carriers, except for a 5 percent portion the Plan retains. With policies effective September 1, 2003 and after, the Plan pays the lesser of 5 percent or \$25,000 for casualty losses up to the coverage limit and the lesser of 5 percent or \$50,000 for property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

Settlement amounts did not exceed insurance coverage for the past three fiscal years and there were no significant reductions in coverage from the prior year.

The Plan's financial statements (audited by other auditors – most recent dates available) conform with accounting principles generally accepted in the United States of America, and reported the following assets, liabilities and retained earnings at December 31:

2010	2009
\$12,036,541	\$ 11,176,186
(4,845,056)	(4,852,485)
\$ 7,191,485	\$ 6,323,701

You can read the complete audited financial statements for the Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 9. RISK MANAGEMENT (Continued)

Employee Medical Benefits

The Village provides medical insurance benefits, prescription coverage and life insurance in the amount of \$20,000 to all eligible employees through Anthem Blue Cross Blue Shield of Ohio.

NOTE 10. 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 assets 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, 2011, the Village had met its debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes 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 percent of such non-defaulting JV5 participant's ownership share of the project prior to any such increases.

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio 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.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 10. JOINT VENTURES WITH EQUITY INTEREST (Continued)

OMEGA JV5 (Continued)

The Village's net investment to date in OMEGA JV5 was \$90,745 at December 31, 2010 (most current information available). Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or the State Auditor's website at www.auditor.state.oh.us.

Amortization of the Participant's percentage share of debt as follows (as of December 31, 2010 – most current information available):

	<u>Principal</u>	<u>Interest</u>	<u>Refunding</u>	<u>Total</u>
2011	\$ 39,522	\$ 36,709	\$ 11,531	\$ 87,762
2012	40,824	35,046	11,534	87,404
2013	42,882	32,953	11,536	87,371
2014	44,982	30,757	11,530	87,269
2015	47,292	28,450	11,539	87,281
2016-2020	275,688	103,100	57,852	436,640
2021-2025	298,823	93,724	46,140	438,687
2026-2030	91,273	288,491	-	379,764
Total	<u>\$ 881,286</u>	<u>\$ 649,230</u>	<u>\$ 161,662</u>	<u>\$ 1,692,178</u>

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.

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 138.65MW 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-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio 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. The Village's net investment in OMEGA JV2 was \$10,494 at December 31, 2010 (most current information available). Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 10. JOINT VENTURES WITH EQUITY INTEREST (Continued)

OMEGA JV2 (Continued)

The thirty-six participating subdivisions and their respective ownership share at December 31, 2010 (the most current information available) 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	<u>0.80%</u>	<u>1,066</u>	Custar	<u>0.00%</u>	<u>4</u>
	<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.

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, 2011 and 2010 for these enterprises are indicated below:

Calculation of JV5 Debt Coverage

	2011	2010
Operating Income	\$ 17,017	\$ 300,143
JV5 Debt Service (Included above as operating expenses to Amp Ohio)	87,762	87,849
KWH Tax from General Fund	-	-
Adjusted Operating Income Available for Debt Service	<u>104,779</u>	<u>387,992</u>
OMEGA JV5 Debt Service (paid by Amp Ohio)	87,762	87,849
Other Electric System Debt Service	-	-
Total Electric System Debt	<u>\$ 87,762</u>	<u>\$ 87,849</u>
Coverage (Convenants require 110% coverage of all debt)	119%	442%

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 10. JOINT VENTURES WITH EQUITY INTEREST (Continued)

As of December 31, 2011

	<u>Electric Fund</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating Cash Receipts:			
Charges for Services	\$ 2,212,079	\$ 1,075,507	\$ 3,287,586
Other Operating Receipts	94,868	21,909	116,777
Total Operating Cash Receipts	<u>2,306,947</u>	<u>1,097,416</u>	<u>3,404,363</u>
Operating Cash Disbursements:			
Personal Services	376,131	299,054	675,185
Travel Transportation	15,726	13,022	28,748
Contractual Services	1,575,647	216,380	1,792,027
Supplies and Materials	89,831	108,978	198,809
Capital Outlay	232,595	248,945	481,540
Total Operating Cash Disbursements	<u>2,289,930</u>	<u>886,379</u>	<u>3,176,309</u>
Operating Receipts Over (Under) Operating Disbursements	17,017	211,037	228,054
Non-Operating Cash Receipts (Cash Disbursements):			
Other Nonoperating Receipts	-	25,754	25,754
Other Nonoperating Disbursements	(30,986)	(19,229)	(50,215)
Proceeds of OWDA	-	60,969	60,969
Proceeds of OPWC	-	32,829	32,829
Principal Payments	-	(271,470)	(271,470)
Interest and Fiscal Charges	-	(128,419)	(128,419)
Total Non-Operating Receipts/(Disbursements)	<u>(30,986)</u>	<u>(299,566)</u>	<u>(330,552)</u>
Net Receipts Before Interfund Transfers and Advances	(13,969)	(88,529)	(102,498)
Transfers and Advances:			
Transfers - Out	(73,426)	-	(73,426)
Transfers - In	-	55,470	55,470
Advances - Out	-	(7,500)	(7,500)
Total Transfers and Advances	<u>(73,426)</u>	<u>47,970</u>	<u>(25,456)</u>
Change in Net Assets	(87,395)	(40,559)	(127,954)
Net Assets - Cash Basis, January 1	<u>1,447,088</u>	<u>1,479,254</u>	<u>2,926,342</u>
Net Assets - Cash Basis, December 31	<u>\$ 1,359,693</u>	<u>\$ 1,438,695</u>	<u>\$ 2,798,388</u>

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 10. JOINT VENTURES WITH EQUITY INTEREST (Continued)

As of December 31, 2010

	<u>Electric Fund</u>	<u>Other Proprietary Funds</u>	<u>Total Proprietary Funds</u>
Operating Cash Receipts:			
Charges for Services	\$ 2,208,904	\$ 1,016,482	\$ 3,225,386
Other Operating Receipts	<u>58,330</u>	<u>24,906</u>	<u>83,236</u>
Total Operating Cash Receipts	2,267,234	1,041,388	3,308,622
Operating Cash Disbursements:			
Personal Services	328,263	279,953	608,216
Travel Transportation	29,905	8,261	38,166
Contractual Services	1,494,118	210,932	1,705,050
Supplies and Materials	53,941	97,237	151,178
Capital Outlay	<u>60,864</u>	<u>1,052,930</u>	<u>1,113,794</u>
Total Operating Cash Disbursements	<u>1,967,091</u>	<u>1,649,313</u>	<u>3,616,404</u>
Operating Receipts Over (Under) Operating Disbursements	300,143	(607,925)	(307,782)
Non-Operating Cash Receipts (Cash Disbursements):			
Other Nonoperating Receipts	-	21,637	21,637
Other Nonoperating Disbursements	(30,468)	(17,944)	(48,412)
Proceed from OWDA Loans	-	575,448	575,448
Proceed from OPWC Loans	-	309,857	309,857
Principal Payments	-	(267,689)	(267,689)
Interest and Fiscal Charges	<u>-</u>	<u>(132,201)</u>	<u>(132,201)</u>
Total Non-Operating Receipts/(Disbursements)	<u>(30,468)</u>	<u>489,108</u>	<u>458,640</u>
Net Receipts Before Interfund Transfers and Advances	269,675	(118,817)	150,858
Transfers and Advances:			
Advances - Out	-	(3,000)	(3,000)
Transfers - Out	(73,649)	-	(73,649)
Advances - In	<u>-</u>	<u>7,500</u>	<u>7,500</u>
Total Transfers and Advances	<u>(73,649)</u>	<u>4,500</u>	<u>(69,149)</u>
Change in Net Assets	196,026	(114,317)	81,709
Net Assets - Cash Basis, January 1	<u>1,251,062</u>	<u>1,593,571</u>	<u>2,844,633</u>
Net Assets - Cash Basis, December 31	<u>\$ 1,447,088</u>	<u>\$ 1,479,254</u>	<u>\$ 2,926,342</u>

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 11. INTERFUND ACTIVITY

Interfund Transfers

Transfers made during the year ended December 31, 2011 were as follows:

Major Fund:	<u>Transfers Out</u>	<u>Transfers In</u>
General Fund	\$ 80,470	\$ 73,426
Total Major Fund	<u>80,470</u>	<u>73,426</u>
Non-Major Funds:		
Fire Fund	-	15,000
Community Pool Fund	-	10,000
Total Non-Major Funds	<u>-</u>	<u>25,000</u>
Major Proprietary Fund:		
Water Fund	-	43,040
Sewer Fund	-	12,430
Electric Fund	73,426	-
Total Major Proprietary Fund	<u>73,426</u>	<u>55,470</u>
Total	<u>\$ 153,896</u>	<u>\$ 153,896</u>

The transfer from the Electric Fund to the General Fund is to transfer kilowatt tax money to the General Fund as mandated by State statute. The transfers to the Fire Fund and the Community Pool Fund are to cover necessary expenses. The transfers to the Water and Sewer Funds were for the Water and Waste Water Treatment Automation Project.

Interfund Advances

Advances made during the year ended December 31, 2011 were as follows:

Major Fund:	<u>Advances Out</u>	<u>Advances In</u>
General Fund	\$ -	\$ 7,500
Non-major Proprietary Fund:		
Electric Meter Surcharge Fund	7,500	-
Total Non-major Proprietary Fund	<u>7,500</u>	<u>-</u>
Total All Funds	<u>\$ 7,500</u>	<u>\$ 7,500</u>

The Electric Meter Surcharge Fund made an advance to the General Fund to repay a prior year advance that enabled the Village to purchase radio-read electric meters at a discounted rate.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 12. 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. 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.

NOTE 13. INCOME TAX

The Village levies a municipal income tax of ½% on all salaries, wages, commissions and other compensation; on net profits earned within the Village; and on incomes of residents earned outside of the Village for the purpose of operating expenses of the Village.

Employers within the Village are required to withhold income tax on employees' compensation and remit the tax to the Village. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. Income tax revenue has been reported as revenue in the General Fund. Income tax revenue for 2011 was \$394,566.

Effective January 1, 2011, the municipal income tax increased to 1%. Of the increase, 50% will be utilized for operating expenses of the Village and 50% for the purpose of street reconstruction.

NOTE 14. CHANGES IN ACCOUNTING PRINCIPLES/RESTATEMENT OF BALANCES

For fiscal year 2011, the Village has implemented Governmental Accounting Standard Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions."

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The implementation of this statement resulted in the reclassification of certain funds, and resulted in a beginning balance restatement as follows:

	<u>General Fund</u>	<u>Agency Fund</u>	
Balance January 1, 2011	\$ 808,616	\$ 1,381	
Reclassification of fund	1,381	(1,381)	
Restated Balance January 1, 2011	\$ 809,997	\$ -	
	<u>Governmental</u>		
	<u>Activities</u>		
Balance January 1, 2011	\$ 1,442,811		
Reclassification of fund	1,381		
Restated Balance January 1, 2011	\$ 1,444,192		

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 15. FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Village is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on the fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	State Highway	All Other Governmental	Total Governmental Funds
Restricted for				
Other Purposes	\$0	\$222,113	\$191,246	\$413,359
Street Repair	0	0	103,968	103,968
Debt Services Payments	0	0	16,861	16,861
Capital Improvements	0	0	57,524	57,524
Total Restricted	<u>0</u>	<u>222,113</u>	<u>369,599</u>	<u>591,712</u>
Unassigned (Deficit)	<u>963,234</u>	<u>0</u>	<u>0</u>	<u>963,234</u>
Total Fund Balances	<u>\$963,234</u>	<u>\$222,113</u>	<u>\$369,599</u>	<u>\$1,554,946</u>

NOTE 16. CONTINGENT LIABILITIES

American Municipal Power Generating Station Project

The Village of Arcanum is a participant in the American Municipal Power Generating Station Project (the "AMPGS Project"). The Village executed a take-or-pay contract on November 1, 2007 in order to participate in the AMPGS Project.

History of the AMPGS Project

In November 2009, the participants of the AMP Generating Station Project (the "AMPGS Project") voted to terminate the development of the pulverized coal power plant in Meigs County, Ohio. The AMPGS Project was to be a 1,000 MW base load, clean-coal technology plant scheduled to go on-line in 2014. This pulverized coal plant was estimated to be a \$3 billion project, but the project's estimated capital costs increased by 37% and the engineer, procure and construct ("EPC") contractor could not guarantee that the costs would not continue to escalate. At the termination date, minimal construction had been performed on the AMPGS Project at the Meigs County site.

At the same time, the participants voted to pursue conversion of the project to a Natural Gas Combined Cycle Plant (the "NGCC Plant") to be developed under a lump-sum-turn-key fixed-price contract that would be open to interested AMP members. The NGCC Plant was planned to be developed on the Meigs County site previously planned for the AMPGS project. In February 2011, development of the NGCC Plant was suspended due to the availability of purchasing the AMP Fremont Energy Center ("AFEC") at a favorable price. AMP intends to develop this site for the construction of a generating asset; however, at December 31, 2011, the type of generating asset has not been determined.

As mentioned above, the AMPGS project participants signed "take or pay" contracts with AMP. As such, the participants of the project are obligated to pay all costs incurred for the project. To date it has not been determined what those total final costs are for the project participants.

As a result of these decisions to date, the AMPGS Project costs have been reclassified out of construction work-in-progress and into plant held for future use or regulatory assets in the combined balance sheet. AMP has reclassified \$34,881,075 of costs to plant held for future use as these costs were determined to be associated with the undeveloped Meigs County site regardless of the determination of which type of generating asset will be developed on the site.

Village of Arcanum
Darke County, Ohio
Notes to the Basic Financial Statements
For the Year Ended December 31, 2011

NOTE 16. CONTINGENT LIABILITIES (Continued)

The remaining costs previously incurred were determined to be impaired but reclassified as a regulatory asset which is fully recoverable from the AMPGS Project participants as part of their unconditional obligation under the "take or pay" contract. At December 31, 2011 AMP has a regulatory asset of \$86,548,349 for the recovery of these abandoned construction costs. AMP is currently working with the AMPGS project participants to establish a formal plan for the recovery on a participant by participant basis.

At the request of the participants, on November 18, 2011 and December 13, 2011 AMP sent memos to AMPGS participants providing the participant's information identifying their potential AMPGS stranded cost liability and providing options for payment of those stranded costs, if the participant so chose. These memos were not invoices, but provided the participants with information which they could utilize in determining if they wanted to pay down a portion or all of the identified maximum exposure. AMP is holding the AMPGS Project stranded costs on its revolving credit facility and is accruing interest in addition to legal fees being incurred in its case with the EPC contractor. AMP would hold any payments received as a deposit in order to cease interest accruals on that portion paid.

Based on an allocation to Arcanum of 2,237 kW and the allocation methodology, both approved as the same by the AMP Board of Trustees, as of December 31, 2011 the Village of Arcanum had a potential stranded cost obligation of \$365,873 for the AMPGS Project. The Village of Arcanum did make a payment of \$100,000, which is on deposit with AMP at December 31, 2011. Therefore, the Village's remaining unpaid potential stranded cost liability at December 31, 2011 is \$265,873.

AMP Fremont Energy Center (AFEC) Development Fee

The AFEC Development Fee is the amount paid by AFEC participants to the AMPGS project as a Development Fee in August, 2011. AFEC participants are a separate group of AMP members that obtained financing for engineering, consulting and other development costs for expertise obtained by AMP for Natural Gas Combined Cycle power plants. This amount is financed by AMP, Inc. and is to be collected through debt service from AFEC participants. The Development Fee paid by all AFEC Participants is credited to the potential AMPGS costs of each AFEC participant that is also an AMPGS participant in proportion to their relative percentage of AFEC (but not less than zero) as approved by the AMP Board. The Village is a participant in the AFEC project and has received a credit to reduce its share of AMPGS potential stranded costs as noted below.

Based on the allocation methodology approved by the AMP Board of Trustees as mentioned above, the Village receives a credit of \$55,489 for being a participant in both projects. This credit is proportionate to its AFEC allocation kW share of 530 and the total kW share of those participating in both projects. The Village has not recorded this credit in its financial statements as of December 31, 2011.

Recording of Stranded Cost

As mentioned above, the Village of Arcanum requested from AMP in December 2011, an invoice for \$100,000, a portion of their potential AMPGS stranded cost liability. The Village has paid that amount to AMP in 2011, expensing it in 2011 in the contractual services line item of the Electrical Fund in its Statement of Cash Receipts, Disbursements and Changes in Fund Net Assets. The Village realizes that the AMPGS Project is still incurring costs beyond that amount.

Booking this expense in 2011, resulted in the Village still passing its debt covenant obligation with Ohio Municipal Electric Generation Agency (OMEGA) Joint Venture 5. Any additional potential stranded costs paid during 2011 in excess of approximately \$8,000 would have resulted in the Village exceeding its debt covenant. The Village has decided to pay additional potential stranded costs out of cash reserves. The Village Council has agreed to pay \$100,000 in July 2012 with the balance to be paid in July 2013. Please see Note 10 regarding OMEGA JV5.



Balestra, Harr & Scherer, CPAs, Inc.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Village of Arcanum
Darke County
104 West South St.
Arcanum, Ohio 45304

To the Village Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Arcanum, Darke County, Ohio (the Village), as of and for the year ended December 31, 2011, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated June 29, 2012 wherein we noted the Village uses a comprehensive accounting basis other than generally accepted accounting principles. As described in Note 14 to the basic financial statements, we also noted that the Village implemented Governmental Accounting Standard No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control 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 audit procedures for expressing our opinions on the financial statements, but not to opine on the effectiveness of the Village's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Village's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in 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 more than a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and timely corrected.

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

Village of Arcanum

Darke County

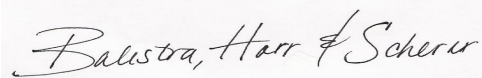
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by
Government Auditing Standards

Page 2

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, providing an opinion 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 that we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management, the Village Council, and others within the Village. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

June 29, 2012



Dave Yost • Auditor of State

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
JULY 26, 2012