

Village of McArthur
Vinton County
Regular Audit
For the Years Ended December 31, 2009 and 2008



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Mary Taylor, CPA

Auditor of State

Village Council
Village of McArthur
124 W. Main Street
McArthur, Ohio 45651

We have reviewed the *Independent Auditor's Report* of the Village of McArthur, Vinton County, prepared by Millhuff-Stang, CPA, Inc, for the audit period January 1, 2008 through December 31, 2009. 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.

The financial statements in the attached report are presented in accordance with a regulatory basis of accounting prescribed or permitted by the Auditor of State. Due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA), modifications were required to the *Independent Auditor's Report* on your financial statements. While the Auditor of State does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. The attached report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the statements are misstated under the non-GAAP regulatory basis. The *Independent Auditor's Report* also includes an opinion on the financial statements using the regulatory format the Auditor of State permits.

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 McArthur is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

November 9, 2010

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Village of McArthur
Vinton County
Table of Contents
For the Years Ended December 31, 2009 and 2008

Title	Page
Independent Auditor's Report.....	1 – 2
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2009	3
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Proprietary and Fiduciary Fund Types – For the Year Ended December 31, 2009	4
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Governmental Fund Types – For the Year Ended December 31, 2008	5
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances – All Proprietary and Fiduciary Fund Types – For the Year Ended December 31, 2008	6
Notes to the Financial Statements	7 – 12
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	13 – 14
Schedule of Findings and Responses	15 – 17
Schedule of Prior Audit Findings.....	18

Independent Auditor's Report

Village Council
Village of McArthur
124 West Main Street
McArthur, Ohio 45651

We have audited the accompanying financial statements of the Village of McArthur, Vinton County, Ohio (the Village) as of and for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP requires presenting entity-wide statements and also presenting the Village's larger (i.e., major) funds separately. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2009 and 2008 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2009 and 2008, or its changes in financial position or cash flows, where applicable, for the years then ended.

Village of McArthur
Vinton County
Independent Auditor's Report
Page 2

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Village of McArthur, Vinton County, Ohio as of December 31, 2009 and 2008, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2010 on our consideration of the Village's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Natalie Millhuff-Stang, CPA
President/Owner
Millhuff-Stang, CPA, Inc.

September 28, 2010

Village of McArthur
Vinton County
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2009

	General Fund	Special Revenue Funds	Capital Projects Fund	Totals (Memorandum Only)
Cash Receipts:				
Property and Other Local Taxes	\$71,868	\$203,580	\$0	\$275,448
Intergovernmental	182,089	125,358	83,946	391,393
Charges for Services	0	78,687	0	78,687
Fines, Licenses and Permits	33,515	425	0	33,940
Earnings on Investments	1,652	585	0	2,237
Miscellaneous	2,517	3,355	0	5,872
Total Cash Receipts	291,641	411,990	83,946	787,577
Cash Disbursements:				
Current:				
Security of Persons and Property	44,063	309,195	0	353,258
Public Health Services	540	0	0	540
Leisure Time Activities	0	28,584	0	28,584
Transportation	0	131,633	0	131,633
General Government	130,313	9,053	0	139,366
Capital Outlay	0	0	83,946	83,946
Debt Service:				
Principal Payment	102,731	9,603	0	112,334
Interest and Fiscal Charges	4,107	1,317	0	5,424
Total Cash Disbursements	281,754	489,385	83,946	855,085
Total Receipts Over (Under) Disbursements	9,887	(77,395)	0	(67,508)
Other Financing Receipts/(Disbursements):				
Other Debt Proceeds	23,000	62,000	0	85,000
Advances Out	(20,000)	0	0	(20,000)
Advances In	0	20,000	0	20,000
Transfers In	2,638	0	0	2,638
Transfers Out	0	(2,638)	0	(2,638)
Sale of Fixed Assets	0	360	0	360
Other Financing Sources	2,564	2,525	0	5,089
Other Financing Uses	(1,086)	0	0	(1,086)
Total Other Financing Receipts/(Disbursements)	7,116	82,247	0	89,363
Excess of Cash Receipts and Other Financing Receipts Over Cash Disbursements and Other Financing Disbursements	17,003	4,852	0	21,855
Fund Cash Balances, January 1	77,904	199,708	0	277,612
Fund Cash Balances, December 31	\$94,907	\$204,560	\$0	\$299,467

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

Village of McArthur
Vinton County

Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2009

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$483,198	\$0	\$483,198
Miscellaneous	924	0	924
Total Cash Receipts	484,122	0	484,122
Operating Cash Disbursements:			
Personal Services	237,701	0	237,701
Contractual Services	91,215	0	91,215
Supplies and Materials	53,284	0	53,284
Total Cash Disbursements	382,200	0	382,200
Operating Income	101,922	0	101,922
Non-Operating Cash Receipts:			
Other Financing Sources	10,625	0	10,625
Earnings on Investment	16	0	16
Other Non-Operating Receipts	0	42,263	42,263
Total Non-Operating Cash Receipts	10,641	42,263	52,904
Non-Operating Cash Disbursements:			
Redemption of Principal	114,383	0	114,383
Interest and Other Fiscal Charges	12,534	0	12,534
Other Non-Operating Disbursements	0	42,294	42,294
Total Non-Operating Cash Disbursements	126,917	42,294	169,211
Net Receipts Under Disbursements	(14,354)	(31)	(14,385)
Fund Cash Balances, January 1	152,989	2,646	155,635
Fund Cash Balances, December 31	<u>\$138,635</u>	<u>\$2,615</u>	<u>\$141,250</u>

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

**Village of McArthur
Vinton County**

*Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Governmental Fund Types
For the Year Ended December 31, 2008*

	General Fund	Special Revenue Funds	Totals (Memorandum Only)
Cash Receipts:			
Property and Other Local Taxes	\$72,399	\$182,849	\$255,248
Intergovernmental	105,840	132,941	238,781
Charges for Services	0	66,390	66,390
Fines, Licenses and Permits	25,300	1,791	27,091
Earnings on Investments	1,805	754	2,559
Miscellaneous	3,750	10,231	13,981
Total Cash Receipts	209,094	394,956	604,050
Cash Disbursements:			
Current:			
Security of Persons and Property	45,408	210,027	255,435
Public Health Services	530	0	530
Leisure Time Activities	0	17,535	17,535
Transportation	0	115,897	115,897
General Government	207,268	13,857	221,125
Capital Outlay	12,980	31,888	44,868
Debt Service:			
Principal Payment	15,264	11,814	27,078
Interest and Fiscal Charges	4,304	282	4,586
Total Cash Disbursements	285,754	401,300	687,054
Total Receipts Under Disbursements	(76,660)	(6,344)	(83,004)
Other Financing Receipts:			
Other Debt Proceeds	0	27,821	27,821
Other Financing Sources	20,049	3,245	23,294
Sale of Fixed Assets	0	1,860	1,860
Total Other Financing Receipts	20,049	32,926	52,975
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	(56,611)	26,582	(30,029)
Fund Cash Balances, January 1	134,515	173,126	307,641
Fund Cash Balances, December 31	\$77,904	\$199,708	\$277,612

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

Village of McArthur
Vinton County
Combined Statement of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balances
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2008

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts:			
Charges for Services	\$509,706	\$0	\$509,706
Miscellaneous	5,117	0	5,117
Total Cash Receipts	514,823	0	514,823
Operating Cash Disbursements:			
Personal Services	222,025	0	222,025
Contractual Services	105,425	0	105,425
Supplies and Materials	27,211	0	27,211
Capital Outlay	64,803	0	64,803
Total Cash Disbursements	419,464	0	419,464
Operating Income	95,359	0	95,359
Non-Operating Cash Receipts:			
Other Debt Proceeds	19,868	0	19,868
Earnings on Investments	1,607	0	1,607
Other Financing Sources	4,761	0	4,761
Other Non-Operating Receipts	0	29,874	29,874
Total Non-Operating Cash Receipts	26,236	29,874	56,110
Non-Operating Cash Disbursements:			
Redemption of Principal	112,048	0	112,048
Interest and Other Fiscal Charges	14,862	0	14,862
Other Financing Uses	400	0	400
Other Non-Operating Cash Disbursements	0	30,570	30,570
Total Non-Operating Cash Disbursements	127,310	30,570	157,880
Excess of Receipts Under Disbursements Before Interfund Transfers	(5,715)	(696)	(6,411)
Transfers - In	4,173	0	4,173
Transfers - Out	(4,173)	0	(4,173)
Net Receipts Under Disbursements	(5,715)	(696)	(6,411)
Fund Cash Balances, January 1	158,704	3,342	162,046
Fund Cash Balances, December 31	\$152,989	\$2,646	\$155,635

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

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of McArthur, Vinton County (the Village), as a body corporate and politic. A publicly-elected six-member Council directs the Village. The Village provides water and sewer utilities, street maintenance, park operations, and police and fire services.

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

B. Basis of Accounting

These financial statements follow the accounting basis the Auditor of State prescribes or permits. This basis is similar to the cash receipts and disbursements accounting basis. This basis recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements adequately disclose material matters, as the Auditor of State prescribes or permits.

C. Cash and Investments

The Village invests all available funds in interest-bearing checking and savings accounts.

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

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

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

Police Levy Fund- This fund receives property tax money to provide police protection.

Fire Levy Fund -This fund receives property tax money and contractual charges for services to provide fire protection.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Projects Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through enterprise funds). The Village had the following significant Capital Project Fund:

Issue 2 Fund – This fund received an Issue 2 grant for a street paving project.

4. Enterprise Funds

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

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

5. Fiduciary Funds (Agency Fund)

Fiduciary funds include agency funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Village disburses these funds as directed by the individual, organization or other government. The Village's agency fund accounts for the financial activity of the Mayor's Court.

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are canceled and reappropriated in the subsequent year.

A summary of 2009 and 2008 budgetary activity appears in Note 3.

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying 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. The financial statements do not include a liability for unpaid leave.

2. EQUITY IN POOLED CASH

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

	2009	2008
Demand Deposits	\$440,717	\$433,247

Deposits: Deposits are insured by the Federal Deposit Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2009 follows:

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$255,632	\$319,843	\$64,211
Special Revenue	432,671	476,875	44,204
Capital Projects	83,946	83,946	0
Enterprise	453,424	494,763	41,339
Total	\$1,225,673	\$1,375,427	\$149,754

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$233,412	\$282,840	(\$49,428)
Special Revenue	481,863	492,023	(10,160)
Capital Projects	83,946	83,946	0
Enterprise	507,908	509,117	(1,209)
Total	\$1,307,129	\$1,367,926	(\$60,797)

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

3. BUDGETARY ACTIVITY (Continued)

Budgetary activity for the year ending December 31, 2008 follows:

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$207,037	\$229,143	\$22,106
Special Revenue	317,916	427,882	109,966
Enterprise	486,095	545,232	59,137
Total	\$1,011,048	\$1,202,257	\$191,209

Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$263,064	\$285,754	(\$22,690)
Special Revenue	438,297	401,300	36,997
Enterprise	556,151	550,947	5,204
Total	\$1,257,512	\$1,238,001	\$19,511

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30.

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

5. DEBT

Long-term debt outstanding at December 31, 2009 was as follows:

	Principal	Interest Rate
Ohio Water Development Authority Loan #2341	\$346,385	2.00%
Ohio Water Development Authority Loan #4682	93,021	4.12%
Mower Note	6,258	5.35%
Legal Expense Note	61,139	4.00%
Total	\$506,803	

The Ohio Water Development Authority (OWDA) loan (#2341) relates to a sewer plant expansion project the Ohio Environmental Protection Agency mandated. The total amount financed for this project was \$1,926,606. The loan will be repaid in semiannual installments of \$59,773, including interest, over 20 years. The loan is collateralized by sewer receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

5. DEBT (Continued)

The Ohio Water Development Authority (OWDA) loan (#4682) relates to a water meter project. The OWDA approved up to \$100,000 in loans to the Village for this project. The Village will repay the loan in semiannual installments of \$3,694, including interest, over 20 years. The loan is collateralized by water receipts. The Village has agreed to set utility rates sufficient to cover OWDA debt service requirements.

In 2006, the Village issued a general obligation note in the amount of \$115,812 to pay off a line of credit. The note was to be repaid in semiannual installments of \$9,784, including interest, with a final payment due March 31, 2013. The Village made a lump sum payment in 2009 to pay this note off in full.

In 2008, the Village entered into a lease with GMAC for the purchase of a police cruiser. This lease was financed in the amount of \$18,548 at an interest rate of 10.65% with annual required payments of \$9,743 in 2008 and 2009. The lease was paid in full in 2009.

On June 3, 2008, the Village issued a note in the amount of \$9,273 for the purpose of purchasing a mower. The note requires annual payments of \$1,177, including interest, over 10 years. The note is a general obligation note and is collateralized by the full faith and credit of the Village.

On April 23, 2009, the Village issued a note in the amount of \$85,000 for the purpose of paying legal expenses. The note requires semi-annual payments of \$6,269, including interest, over 8 years. The note is a general obligation note and is collateralized by the full faith and credit of the Village.

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

Year Ending December 31:	OWDA Loan #2341	OWDA Loan #4682	Mower Note	Legal Expense Note
2010	\$119,546	\$7,369	\$1,177	\$12,537
2011	119,546	7,369	1,177	12,537
2012	119,546	7,369	1,177	12,537
2013	0	7,369	1,177	12,537
2014	0	7,369	1,177	12,537
2015-2019	0	36,847	2,354	12,537
2020-2024	0	36,847	0	0
2025-2027	0	22,108	0	0
Total	\$358,638	\$132,647	\$8,239	\$75,222

6. RETIREMENT SYSTEMS

The Village's full-time police officers belong to the Ohio Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2009 and 2008, OP&F members contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of participants' gross salaries. For 2009 and 2008, OPERS members contributed 10 percent of their wages. The Village contributed an amount equal to 14 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2009.

Village of McArthur
Vinton County
Notes to the Financial Statements
For the Years Ended December 31, 2009 and 2008

7. RISK MANAGEMENT

The Village has obtained commercial insurance for the following risks:

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

8. CONTINGENT LIABILITIES

The Village is not currently party to litigation.

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

9. COMPLIANCE

The Village had expenditures in excess of appropriations, which is contrary to Ohio Revised Code Section 5705.41(B).

The Village had appropriations in excess of available resources, which is contrary to Ohio Revised Code Section 5705.36(A).

The Village did not properly encumber funds prior to commitment, which is contrary to Ohio Revised Code Section 5705.41(D).

The Village did not properly maintain accounting records for 2008 as required by Ohio Administrative Code Section 117-2-02(D).

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Village Council
Village of McArthur
124 West Main Street
McArthur, Ohio 45651

We have audited the financial statements of the Village of McArthur, Vinton County, Ohio (the Village) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated September 28, 2010, wherein we noted the Village followed the accounting basis the Auditor of State prescribes or permits, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal 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 auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses, which are described in the accompanying schedule of findings and responses as items 2009-1, 2009-2, and 2009-6.

Village of McArthur
Vinton County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2009-3 through 2009-6.

We noted certain matters that we reported to management of the Village in a separate letter dated September 28, 2010.

The Village's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Village's responses and, accordingly, we express no opinion on them.

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



Natalie Millhuff-Stang, CPA
President/Owner
Millhuff-Stang, CPA, Inc.

September 28, 2010

Village of McArthur
Vinton County
Schedule of Findings and Responses
For the Years Ended December 31, 2009 and 2008

Findings Related to the Financial Statements Required to be Reported in Accordance With GAGAS

FINDING NUMBER 2009-1

Material Weakness – Budgetary Information Within the Accounting System

Accurate budgetary information within the organization's accounting system is pertinent to ensure that the Village has accurate and complete information for decision-making processes. Amendments to the budget should be properly documented in the minute record to provide assurance that changes to appropriations are authorized by the governing board. Budgetary appropriations were entered into the accounting system that could not be identified as approved within the minutes. Failure to properly document authorized budgetary amendments within the minute record results in an incomplete record of proceedings. The Village should implement the appropriate procedures to ensure that all authorized budgetary amendments are properly documented within the minute record to ensure that budgetary information disclosed in the financial records are adequately supported.

Client Response:

All appropriations were listed in the minutes except December. It is on the print out from the computer but failed to get in the minutes. We will watch this closer in the future.

FINDING NUMBER 2009-2

Material Weakness – Financial Reporting

A monitoring system by the Village should be in place to prevent or detect misstatements for the accurate presentation of the Village's financial statements. The Village misclassified various disbursements by line item in 2008 and 2009. Additionally, transfers between bank accounts were not accounted for correctly in the accounting records. These errors were corrected in the accompanying financial statements. The Village should implement additional monitoring procedures to ensure transactions are properly recorded.

Client Response:

Receipts are properly recorded as per chart of accounts from village manual.

FINDING NUMBER 2009-3

Noncompliance – Expenditures in Excess of Appropriations

Ohio Revised Code Section 5705.41(B) states that no subdivision or taxing unit is to expend money unless it has been appropriated. The Village had expenditures in excess of appropriations at the legal level of control in the General Fund in 2008 and the General Fund, Street Construction, Maintenance, and Repair Fund, Fire Levy Fund, and Water Fund in 2009. The Village should implement the appropriate procedures, such as periodic comparisons of expenditures to appropriations, to ensure that expenditures are limited to authorized appropriated amounts.

Client Response:

I agree in 2008 because an appropriation was not listed in December. In 2009, the financial report from UAN does not show that expenditures were in excess of appropriations. A comparison is made every month.

Village of McArthur
Vinton County
Schedule of Findings and Responses
For the Years Ended December 31, 2009 and 2008

FINDING NUMBER 2009-4

Noncompliance – Appropriations in Excess of Available Resources

Ohio Revised Code Section 5705.36(A)(2) allows all subdivisions to request increased amended certificates of estimated resources and reduced amended certificates upon determination by the fiscal officer that revenue to be collected will be greater or less than the amount in the official certificate of estimated resources. Ohio Revised Code Section 5705.36(A)(4) requires obtaining a reduced amended certificate if the amount of the deficiency will reduce available resources below the current level of appropriation. The Village had appropriations in excess of available resources in the Sewer Fund in 2008. The Village should implement the appropriate procedures, such as periodic comparisons of available resources to estimated resources and appropriations, to ensure that appropriations are limited to available resources to ensure overspending does not occur.

Client Response:

All appropriations were listed in the minutes except December. This resulted in the appropriations being in excess of available resources in this fund. It is on the print out from the computer but failed to get in the minutes. We will watch this closer in the future.

FINDING NUMBER 2009-5

Noncompliance – Prior Encumbrance of Funds

Ohio Revised Code Section 5705.41(D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. The statute provides the following exception to this basic requirement:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that she is completing her certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$3,000 for political subdivisions other than counties may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Eighty-nine percent of disbursements tested in 2008 and forty-eight percent of disbursements tested in 2009 had invoice dates preceding the encumbrance date. Failure to certify the availability of funds properly can result in over spending funds and negative cash fund balances. The Village should implement budgetary monitoring procedures to ensure that funds are properly and timely encumbered prior to commitment.

Client Response:

Blanket certificates are used. All monies are encumbered in January from the appropriations. Budgetary spreadsheet is given to each Council member at their meetings. The UAN system will not let you spend money unless it has been encumbered.

Village of McArthur
Vinton County
Schedule of Findings and Responses
For the Years Ended December 31, 2009 and 2008

FINDING NUMBER 2009-6

Noncompliance Citation and Material Weakness – Ohio Admin. Code Section 117-2-03(D)

Ohio Administrative Code Section 117-2-02(D) states, in part, all local offices may maintain records in a manual or computerized format. The records should be based on the nature of operations and services the public office provides, and should consider the degree of automation and other factors. Such records should include the following:

- (1) Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public offices uses. The amount, date, name of the payor, purpose, receipt number, and other information necessary to properly classify the transaction.
- (2) Appropriation ledger, which may assemble and classify disbursements or expenditure/expenses into separate accounts for, at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

The Village was able to provide cash journals for 2008, but was unable to print a receipt ledger or appropriation ledger from the computer system. Further, cash balances were not maintained on the computer system, but rather tracked on an excel spreadsheet by the Fiscal Officer.

The Fiscal Officer utilized a software program in 2008 which was deleted from the computer when the Village began utilizing UAN in 2009. Therefore, reports from the old system could not be reproduced/printed.

This could result in errors and/or irregularities occurring and remaining undetected for an extended period of time.

The Village should maintain the appropriate ledgers from the computer system throughout the year. We noted that the Village has changed computer systems to UAN in 2009.

Client Response:

Cash journals, receipt and appropriation ledgers were printed from the 2008 system. These are kept in bound note books. The reports from this system were printed in December and January, but you could not print the reports in 2010.

Village of McArthur
Vinton County
Schedule of Prior Audit Findings
For the Years Ended December 31, 2009 and 2008

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
Finding 2007-001	Noncompliance with ORC Section 5705.41(D) – Prior Certification of Funds	No	Reissued as Finding 2009-5
Finding 2007-002	Noncompliance with OAC Section 117-2-02(D) and Material Weakness – Maintenance of Proper Accounting Ledgers and Council Monitoring of Financial Activity	No	Reissued as Finding 2009-6
Finding 2007-003	Material Weakness – Establishment and Utilization of Capital Projects Funds When Appropriate	Yes	
Finding 2007-004	Material Weakness – Financial Reporting	No	Reissued as Finding 2009-2

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Mary Taylor, CPA
Auditor of State

VILLAGE OF MCARTHUR

VINTON 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
NOVEMBER 23, 2010